TEXAS DEPARTMENT OF AGRICULTURE

TODD STAPLES
COMMISSIONER

January 21, 2014

Ms. Donna Nelson
Chairman
Public Utility Commission of Texas
P.O. Box 13326
Austin, TX 78711

Dear Chairman Nelson:

Thank you for your service to the people of the state of Texas. I appreciate your efforts to balance the varied needs represented in our state and ensure our families and businesses have access to the basic utilities necessary to grow their families and generate economic activity.

As the debate over the structure of the state's electricity market continues, I urge you to seek solutions that will preserve the current market-based model and ensure affordability and reliability. To accomplish this, I propose you start with rejecting a traditional "capacity market" system for the following reasons:

- **Costs to Texas Taxpayers:** The Texas Public Policy Foundation estimates that a "capacity market" would force a $3 to $5 billion per year hike on electric bills, which amounts to $180 per year for every man, woman and child in Texas.

- **Clear Cost, Questionable Benefit**: The costs of requiring consumers to pay for the promise of capacity – rather than actual electricity production – outweighs the benefit of hedging the mere fear that a shortage could occur at some time in the future.

- **Will Not Generate More Electricity**: Even under such a system, requiring the promise for more generation capacity will not ensure more electricity is available.

- **Abandons Market Principles**: Abandoning market principles for a mandated capacity structure compromises the work that has been done in Texas, fails to solve concerns about shortages, and creates long-term challenges for Texas' energy consumers, as demonstrated in other states where government attempts to control generation.

- **Circumvents the Legislative Process:** This new direction conflicts with the intent of Senate Bill 7 and statute. Moving away from the legislatively directed market-based structure constitutes a major policy shift, which the Legislature should guide.

P.O. Box 12847 Austin, Texas 78711 (512) 463-7476 Fax: (888) 223-8861
www.TexasAgriculture.gov

Maintaining the competitive structure of our electricity market must remain the priority. It is imperative to determine with certainty if electricity demand is outpacing supply. While models may indicate low reserve margins, the reality is that current market structure is sustaining a respectable reserve of approximately 15%, and new generation investment is already being built, as well as a number of proposals for additional generation upgrades and capacity which will assist in meeting future needs.

More must be done to validate the likelihood of projected shortages, and to place them in the context of their impact and cause. It is my understanding some models indicate demand could exceed supply for a very short window of time relative to total annual need and demand. Service interruption should always be a concern, but we must weigh the true likelihood and impact of shortages against the cost of a capacity market, as well as other solutions that may be available to bridge these projected and short timeframes of excess demand. Further, the electricity supply chain is threatened more by local factors, for example a tree or animal interfering with infrastructure, than by the structure of our market system.

Therefore, I propose the commission and ERCOT find solutions that will preserve the market-based structure and bridge those very short, intermittent gaps, by seeking additional supply from generators on an as-needed basis. When acquiring this additional supply, the process must be open and competitive for all generators, transparent to consumers, and have clear, measurable results with specific requirements and end dates.

Creating an environment where the construction of new electricity generation plants is viable for private industry is imperative. It is critical we make sure we do not over-regulate the process where it becomes too costly for companies to build more generation plants. With Texas growing at a rapid pace, we can structure a regulatory system that ensures the private sector sees opportunities to bring new plants on-line to increase capacity. Let's stick with a market-based approach for Texans, not a government managed model.

Thank you again for your service. Please feel free to contact me if you have questions or concerns.

Sincerely yours,

Todd Staples

TS/KF/er

cc: Mr. Kenneth Anderson, Jr.
Ms. Brandy Marty