

## 1Q21 INTERVIEW: TAKING THE WRONG LESSONS FROM THE TEXAS POWER DEBACLE

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A former ERCOT director looks back at the lessons from four freezing days in the Lone Star State, and fears policymakers are taking all the wrong lessons, Andrew Vitelli reports

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### USA & Canada

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After four freezing days in February caused a devastating electrical failure across Texas, it became clear that state lawmakers were likely to act.

But Peter Cramton, who served as an independent director on the board of the Electricity Reliability Council of Texas (ERCOT) until late February, worries that the legislature is on the verge of taking all the wrong actions.

“I am concerned about the approach to the crisis,” Cramton, who resigned along with four other board members following the storm, told *SparkSpread* in an interview. “Governor Greg Abbott’s first step was to call for the resignation of non-Texans from the system operator’s board, individuals that bring expertise and independence.”

Cramton, an economics professor at the University of Maryland and the University of Cologne, joined the ERCOT board in 2015. His research has focused on auctions and market design, with applications including electricity and financial markets.

Looking back at the system’s failure, Cramton sees the freezing of wind turbines, which received much attention and threatens to push at least a handful of wind generators into bankruptcy, as a minor part of the story. The focus, he says, should be on shoring up the system’s natural gas supply.

“Virtually all the systems in the US and around the world rely on natural gas for firm energy. The proximate cause of the Texas crisis was the lack of natural gas,” Cramton says. “No matter how many tens of billions you spend on winterizing a gas-fueled combined cycle unit, if you don’t have gas you can’t generate electricity.”

### Favoring fossil

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Cramton sees weatherization of wind turbines as costly and uneconomical, given the rarity of freezing temperatures in Texas and the non-trivial costs that come with winterization. But he fears lawmakers will respond to the crisis by requiring winterization of wind generators and put wind at a competitive disadvantage to fossil fuels.

“Wind is not expected to perform during winter shortage events,” he explains. “To me it is inconceivable that the economic response is to winterize the wind turbine blades, but that’s just the sort of thing that the Texas legislature is apt to do. The Texas legislature is predisposed to love oil and gas, so if you can impose a cost on wind, legislators think it’s a good thing. The pending legislation to shift the cost of reserves from the demand side, where it belongs, to renewable resources, is another example.”

The sky-high costs incurred by wind farms like Canadian Breaks, Mariah, and Stephens Ranch, which were unable to produce energy but owed hedge providers the price of power when it skyrocketed to USD 9,000 per MWh, reflected flawed contracts rather than any policy or regulatory shortcomings, Cramton says. But improving the forward-energy market would improve liquidity and would have allowed these wind producers to procure energy ahead of time.

Specifically, Cramton favors adding a forward-energy market for transparent and efficient trade up to 48 months ahead rather than adding capacity markets, which he calls “vulnerable to inefficiencies in the stakeholder process”.

On the demand side, Cramton says the state needs to make retail power prices more reflective of demand to mitigate demand surges and avoid another meltdown. But the state is now weighing a ban on indexed retail electric plans whose rates better reflect the cost of wholesale electricity. He blames inordinate media coverage of a small minority of homeowners that ended up with outrageously high electric bills.

“Banning pass-through rates seems like a politically good idea, but it is an absolutely terrible idea,” he says.

## Firm energy

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Following the February disaster, much attention was paid to the independence of Texas’s electrical grid, something of an energy island alongside the country’s more integrated system.

“A stronger connection to the US grid makes a great deal of sense but it isn’t going to happen overnight. It’s very difficult to pull off from a political perspective but also from a time perspective,” he adds. “That’s something you do over 10 years. It’s not something you can snap your fingers and have it done.”

Looking forward, Cramton sees solar and storage as great investments in Texas but does not see renewables as the solution for making the grid more resilient, at least in the short term.

“It’s impossible to build enough wind and solar to induce reliability,” he says. “You have to have firm energy. Today, firm energy comes from conventional resources: coal, gas, and nuclear. Tomorrow, firm energy will also come from long-duration storage.”

Berkshire Hathaway Energy, Warren Buffett’s firm, has proposed spending USD 8.3bn to build 10 new natural gas plants across the state to create a backstop of emergency supply. Cramton calls Buffett’s idea a poor plan.

“The process is terrible. It makes no sense for the Texas Legislature to select a means and a company to provide a reliability solution,” he says. “The subject matter is much too complex for the legislature to grabble within a span of days. The USD 8bn cost is significant and the 9.3% guaranteed return on investment is likely high. The legislature should instruct the PUC and the Railroad Commission to identify and administer a least-cost solution. This is done through administrative and competitive processes run by the PUC and ERCOT.”

Cramton conveys little faith in the state’s political actors to tackle the formidable challenges facing them. In addition to seeing the legislature as overly supportive of oil and gas, he sees the Railroad Commission of Texas acting as an advocate rather than a regulator of gas.

The Railroad Commission is a state agency tasked with regulating the state’s oil and gas industry, natural gas utilities, and pipelines. Though formed in 1891 to regulate railroads, this function was transferred to the Texas Department of Transportation in 2005.

“The regulator of natural gas needs to institute the kind of reforms we have in the electricity market. Natural gas should be a regulated market that promotes transparency, simplicity, and efficient trade. This is what we do in electricity,” he says. “There is absolutely none of that right now in the gas market.”

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