Blackouts a fluke now, but in 2010? - Texas must build plants - and soon, experts say

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Texans this week got a glimpse of what life might be like in 2010 if power companies don't build more generation plants.

Demand for electricity peaked Monday as record-high temperatures prompted folks to turn on air conditioners. Electric companies weren't ready, causing a rolling electricity blackout across the state.

Experts and lawmakers say Monday was just bad luck. Electric companies had idled power generators for maintenance during the usually mild month of April. The 101-degree day was a surprise.

But Texans shouldn't relax. Population growth is pushing electricity demand higher, and supply could get uncomfortably tight in about four years unless power companies build more plants.

"Yesterday was an absolute freak of nature, if you will," Gov. Rick Perry said at a news conference Tuesday. But he added: "We're a growing state, and we're going to have to build more plants."

Aside from blackouts, tight electricity supply can mean soaring prices. On Monday, spot power prices in Texas hit $599 per megawatt hour; typically power costs about $100 per megawatt hour at peak times.

Electricity experts say the cost of Monday's blackouts probably won't show up on customer bills, because the emergency was so short. But it offers an example of what tight supply can do to power prices.

Officials with the Electric Reliability Council of Texas, which operates the power transmission grid, say rolling blackouts are unlikely to happen again this summer.

The council forecasts that average daily generation capacity this summer will be 16.9 percent higher than demand. ERCOT wants that number, known as the reserve margin, to remain above 12.5 percent.

But by 2010, the reserve margin will drop to an uncomfortably low 11.4 percent, ERCOT predicts.

"We haven't had as many signed generation agreements [to build new plants] as we would have hoped," said Bill Bojorquez, director of system planning for ERCOT.

But Mr. Bojorquez said he's confident Texas will have the generation it needs based on plants in the planning stages.

Still, getting regulatory approval, building the plants and getting them online in time isn't a sure thing. Anticipated coal-fired plants could fail to get environmental permits. Natural gas prices could rise so high that gas-fired plants are too expensive to operate. And there could be kinks in plans to build power lines to carry the extra electricity to consumers, Mr. Bojorquez said.

Texas deregulated its electricity market in 2002. The government doesn't build power plants, and regulators no longer guarantee that power companies will get a return on their investments.

As power prices rise with demand, power companies will build more generators, or so the theory goes.

"People need to understand that we are in a market, and it's never not interesting," said Michelle Michot Foss, chief energy economist for the Center for Energy Economics at the University of Texas.

"The market is very healthy. This is a good place to be. People like investing in Texas," she said. "If we were in another place where it was pretty hard to get projects off the ground, the concerns would be justified, but not around here."

The flip side to a deregulated market is there's little incentive for power companies to build too much capacity, and finding the best balance can be rocky.

It's important for power companies and regulators to work together on forecasting and planning, said Jim Hoecker, a partner with Vinson & Elkins and the former chairman of the Federal Energy Regulatory Commission.

"It's a choice between a super-expensive system where you never experience outages, and those that are operating fairly close to the
limit," he said, adding that a system with 40 percent more generation capacity than necessary would be reliable but expensive.

Since Monday's blackouts, some generation companies have revised maintenance plans in order to meet demand.

TXU Corp. planned to shut down equipment at two coal-fired plants for maintenance this week but chose to wait, said spokeswoman Kim Morgan. The decision is costing TXU about $100,000 a day, Ms. Morgan said, because the company had hired contractors and engineers to work on the projects.

TXU is planning to build two more coal-fired plants in the next few years.

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Caption: PHOTO(S): (BRAD LOPER/Staff Photographer) Pete Ingram monitors the control station at TXU Electric Delivery's Transmission Grid Management Center in Dallas. There were no rolling blackouts Tuesday, even though temperatures were nearly as high as they were Monday. CHART(S): 1. (DAVID RENFROW/Staff Writer, SERGIO PECANHA/Staff Artist) TURNING DOWN THE HEAT. 2. DigitalEXTRA.