

Public Citizen's Texas Office Award Winning Advocacy

Tom "Smitty" Smith, State Director

2009 Heinz Award
American Wind Energy Association "2008 Achievement in Advocacy Award"
CATEE (Clean Air Through Energy Efficiency) "2008 Gregg Cooke Award for Excellence in Environmental Leadership"
Campaign for People's "Thomas Paine Award"
U.S. EPA's "Award of Excellence"
2001 Austin Chronicle Best of Austin "Best People's Lobbyist"

Public Citizen Texas office

Air Quality 2006 Conference "Outstanding Non-Profit Organization Award"

Public Citizen's Solar Austin Campaign

Livable City "Vision Award"
Interstate Renewable Energy Council "Innovation Award"
2004 Austin Chronicle Best of Austin "Best Grassroots Effort"
Texas Renewable Energy Industries Association "Special Recognition Award"

October 22, 2010

Honorable John Carona, Senator
P.O. Box 12068
Capitol Station
Austin, Texas 78711
October 22, 2010

Dear Senator Carona;

I think someone is trying to blow smoke in the eyes of the Senate. I am writing to express concern over a potential misconception or mischaracterization of benefits in the most recent cost-benefit assessment update on the Texas Nodal System completed for the Public Utility Commission of Texas.¹ During the Senate Business and Commerce Committee hearing on November 18, 2008 Senator Fraser expressed his concern about who would benefit from the nodal system: market participants or consumers. During the hearing he said to Chairman Smitherman in reference to the nodal system,

"The ratepayers are going to pay for the cost of it. Is that \$6 billion going to flow down to the customers? Who is going to realize that benefit? That's a key consideration that crosses my mind... because this has been pushed by the market participants."²

The updated cost-benefit analysis, however, refers to benefits to wholesale customers, not end-use customers.

I call your attention to the following paragraph of the executive summary:

These updated results indicate that on a going-forward basis, the overall system-wide benefits outweigh the net costs of completing the TNM program. Similarly to the 2004

¹ http://www.puc.state.tx.us/electric/reports/31600/PUCT_CBA_Report_Final.pdf

² Nov 18, 2008 Senate Business & Commerce Committee hearing, retrievable at <http://www.senate.state.tx.us/avarchive/?yr=2008>. Comments occur at 2:27:55.

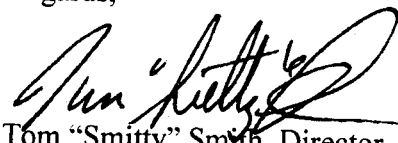
CBA findings, CRA/Resero estimates that TNM implementation will provide a significant reduction in consumer wholesale payments for electricity that exceeds the projected TNM costs. The savings to consumers are estimated to be approximately \$5.6 billion (NPV) over the first ten years of operation of the nodal market, more than twenty times the projected TNM cost. The consumer benefits do, however, reflect a transfer in wealth from generators to consumers and not simply a system-wide benefit derived from more efficient electricity production and delivery³ [*emphasis added*]

It would be a mischaracterization to equate the benefits outlined in the update with benefits to retail customers and ratepayers, which is what the Senator's question had intended to determine. In the PUCT-funded cost-benefit update, there is no analysis on whether and to what degree benefits would flow down to customers, since the data only refers to wholesale consumers, not retail consumers. In addition, some of the recent ERCOT and PUCT meetings have in fact revealed that there are risks of additional costs that may flow to the Retail Electricity Providers that may be passed on to all but the smallest of consumers (those under 50kW).

I request that you direct the PUCT and ERCOT to report what the Senator had originally intended to know: a cost-benefit analysis of TNM for homes and businesses. Doing so would ensure that Texas electric customers have a clear understanding of the impact of switching to a nodal system.

I would greatly appreciate a written response to this letter from the PUC. Thank you for your time and effort in working for the welfare of Texas electric consumers.

Regards,



Tom "Smitty" Smith, Director
Public Citizen-Texas Office

³ Update on the ERCOT Nodal Market Cost-Benefit Analysis, p. 7.