



RESEARCH SUMMARY

IMPROVING THE ERCOT GRID THROUGH A RELIABILITY REQUIREMENT FOR VARIABLE GENERATION

The increasing variability of Texas' electricity supply — caused by market-distorting policies that encourage expansion of wind and solar while discouraging investment in more reliable generators — is beginning to strain the ERCOT grid. This strain was evidenced by several emergency conservation alerts in 2019 and the blackouts in February 2021.

Wind and solar generation is projected to grow dramatically over the next several years, while dispatchable generation is projected to remain flat or decline. In order to maintain affordable and reliable electricity for all Texans over the next decade, Texas must implement a requirement to ensure all electric generators can provide power when Texans need it most — and that variable generators, not ratepayers, shoulder the cost of their variability. The need for this requirement is derived from the following realities.

1. Serving ratepayers should be the primary purpose of electricity policy and market design.
2. The Texas model of socializing transmission and reliability costs among ratepayers provides generators with an implicit subsidy and favors generators that impose more transmission and reliability costs on the system.
3. Failing to allocate reliability costs to variable generators will result in increasing costs for backup power or in more frequent reliability problems, as Texas is experiencing. Neither outcome is optimal for consumers.
4. Allocating more of these system-level reliability costs to generators will bring more balance to the market and provide an incentive for generators to minimize those costs, thereby lowering the overall cost to ratepayers.

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