

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 8, 2003

TO: Honorable Phil King, Chair, House Committee on Regulated Industries

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB3265 by Hunter (Relating to compensation for certain federal production tax credits lost by certain existing renewable generation projects due to lack of electric transmission capabilities.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would add section 39.9045 to the Utilities Code to require each independent organization certified under section 39.151 of the Utilities Code to adopt procedures to compensate certain renewable generators for lost federal production tax credits if transmission constraints limited the generators' ability to deliver power to the electric grid. These procedures must limit total payments to \$10 million annually in each power region as defined in section 39.152 of the Utilities Code. In addition, payments would only be made to renewable energy generators that were constructed to meet the renewable energy goal under section 39.904 of the Utilities Code and began operating on or before January 1, 2002. The bill would end the payments once the independent organization implemented locational marginal pricing for transmission service.

The bill would primarily affect wind power developers who have facilities in the McCamey area of West Texas (Pecos, Crane, Upton and Crockett counties) connected to the Electric Reliability Council of Texas (ERCOT) grid. About 760 MW of wind power was placed in service in McCamey before January 1, 2002, the cutoff date for eligibility under the bill. However, in some instances, the transmission lines currently serving McCamey are not capable of exporting all of the energy produced from the renewable energy facilities in the area. Although line upgrades are planned, 2007 is the earliest that the transmission constraints could be fully relieved. The Commission estimates that the \$10 million annual cap is approximately equivalent to the value of production tax credits lost by McCamey-area wind power developers in 2002. The bill is silent on how the costs would be allocated to market participants, but most payments made by ERCOT are passed on to all load-serving entities on the grid.

Public Utility Commission (PUC) staff may be involved in the development of the independent organization's procedures required by this bill. The bill could also require the PUC to arbitrate some related disputes that could not be resolved through the independent organization's dispute resolution procedures. Such litigation is part of the agency's current function and could be carried out with existing resources.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 473 Public Utility Commission of Texas

LBB Staff: JK, JRO, RT, WP