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Title As Prices Fall, Texas Utilities Reevaluate Value of Wind-Generated Power

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Context

Proponents of wind energy spent the last two decades fighting a simple truth in the marketplace: Electricity generated from the wind cost more than power from other sources.



But in areas of the country, pollution-free wind power may be turning a corner.



Some utilities in Texas are paying less for wholesale wind power than for electricity generated from natural gas. For residential consumers in North Texas, electricity rates under one wind power plan are now the same as the rates from incumbent provider TXU Corp.



The main reasons for the shift: improving wind-turbine technology, which has lowered the cost of electricity generated from wind, and surging natural gas prices, which have made wind power more attractive in comparison.

"I can remember a decade ago when wind developers were talking about the so-called nickel turbine," said Randall Swisher, executive director of the American Wind Energy Association, referring to the cost of wind power, which at 5 cents per kilowatt-hour was twice that of some Texas contracts today.

"We thought we'd reached the holy land at that point," he said.

Texas consumers who sign up for wind power plans -- to support development of more renewable energy -- still pay more than they could under traditional plans that use not only natural gas but older nuclear and coal plants.

But if natural gas prices remain at higher levels, electricity retailers could see more consumer demand for wind power -- demand that might help the industry tackle the major hurdles it's facing.

Though in its most competitive price position ever, wind power has yet to attract flocks of consumers. It still accounts for less than 1 percent of U.S. electricity supply.



Wind power's growth is restrained by lack of consumer awareness that prices are coming down, and by financial problems in some parts of the industry.

The late 1990s boom brought a flood of gas-fired power plants into the Texas market -- so many that the state will have far more generation capacity than it needs in the coming years.

Plentiful power supplies and weakened balance sheets mean that few utilities, especially deregulated ones, are stepping forward to sign long-term contracts for wind.

"Wind projects need to have power purchasers in place," said Lori Bird, senior energy analyst at the National Renewable Energy Laboratory. "There has to be a real market for it."

Texas companies have already been on a wind shopping spree.

The state's 1999 electric deregulation law mandated that Texas utilities add a total of 2,000 megawatts of renewable energy--including power from the wind, sun, water and landfill gases-- by 2009.

It led to a West Texas construction boom, with more than 900 megawatts of wind power going up in 2001.

But additional transmission lines are needed in West Texas, where the state's strongest winds blow, to send wind power to North Texas and other parts of the state.

State officials and utilities say they're working on the problem. Legislation moving through the House could speed up transmission line construction.

The difficulties with congested power lines could redirect wind-farm developers elsewhere, said Rebecca Klein, chairman of the Texas Public Utility Commission.

"I believe that'll happen," she said. "They'll maybe look in southeast Texas, for example, more than they have now."

Even without wind development, the state's power mix has become increasingly cleaner over the last decade. Coal is the leading fuel for electricity generation nationwide, but power plants that run on natural gas -- a cleaner-burning fuel -- have taken the lead in Texas.

High demand for natural gas across the country has sent prices soaring. Some industry officials have said that wind power is less expensive when natural gas is above \$3.50 per million British thermal units.

Prices have been hovering well above \$5 per million BTUs -- after spiking to \$20 on the spot market in late February -- and most experts predict they will be above \$4 for the next decade. The higher prices, along with the extreme volatility in natural gas markets, have helped wind's appeal.

"When the market rises ... we have been displacing gas at a cheaper price because of our wind prices," said Roger Duncan, vice president of governmental relations, energy and environmental policy at Austin Energy, a city-owned utility.

A key factor in narrowing the gap between wind and other electricity sources has been the support of a federal tax credit for wind, at 1.7 cents per kilowatt-hour.

The credit is slated to expire at year's end, but an extension is included in House and Senate versions of an energy bill, along with tax incentives for crude oil and natural gas producers.

In Texas, where renewable energy today amounts to about 2 percent of the electricity mix, several utilities have attracted national attention with their renewable power sales.

Dallas-based TXU, the largest electric company in Texas and the biggest buyer of wind power in the state, recently signed Dyess Air Force Base in Abilene to the largest contract for renewable energy in U.S. history.

Dyess will buy 78 million kilowatt-hours of electricity generated from wind, and officials said the base's electricity would cost about the same as it did before deregulation.

Austin Energy last year sold more electricity generated from renewable sources -- almost 252 million kilowatt hours -- than any other electric utility in the country.

Dozens of business customers, including chipmaker Advanced Micro Devices Inc. and Apple Computer Inc. have signed up with the Austin utility to get all of their electricity from the renewable program, which is mostly wind.

The plan costs customers about 1 cent per kilowatt-hour more than the traditional plan does. But it locks in their fuel charge for 10 years, which isn't the case with natural gas.

Green Mountain Energy Co. announced Monday a

commercial plan to sign up business customers at lower rates than they're paying now.

The Austin-based company will offer a "50 percent cleaner" plan, with electricity generated from wind and natural gas. The program was designed to not only save businesses 10 percent off bills from incumbent providers but also allow them to promote their environmentally friendly choice.

About 45 percent of residential U.S. consumers can participate in "green power" plans from about 300 utilities and co-ops, said Ms. Bird, of the National Renewable Energy Laboratory. But only about 400,000 customers have signed up.

Under electric competition in Texas, most consumers in North Texas have two options for pollution-free electricity plans: Green Mountain, the state's biggest marketer of renewable electricity, and Reliant Resources Inc.'s Reliant Energy, the area's most visible competitive provider.

TXU's residential rates in its original territory are still regulated during the transition to competition, so the company is not allowed to offer a wind-power plan in North Texas.

But it's developing a wind-power program to attract customers in other parts of the state where it operates as a fully competitive provider, a spokesman said.

During the deregulation pilot program in 2001, Houston-based Reliant offered a wind power plan with rates that were 1 cent per kilowatt-hour above its regular plan. About 5 percent of its sales during the pilot came from its renewable-energy plan.

"We promoted it fairly aggressively in the pilot and received a reasonable amount of interest," said Bob Harvey, Reliant's group president for retail businesses. "It was given a fair bit of visibility."

But since then, Reliant says it has focused its marketing on its less-expensive nonrenewable-energy product.

After the March rate increase by TXU, which has more than 2 million electricity customers in North Texas, Reliant set prices for its nonrenewable product at 1 cent per kilowatt-hour below TXU's rates--a \$10-a-month discount for the average customer.

Reliant kept its renewable product 1 cent above its regular plan. That put the wind-power plan -- "coincidentally," Mr. Harvey said -- at parity with TXU's regular rates.

Under state rules, Reliant and any other competitive providers can change their rates with a 45-day notice to their customers.

The wind-power plan is displayed on its Web site, but Reliant isn't directing customers toward it through heavy advertising in North Texas.

"We do not see a groundswell of consumer interest for the renewable product," Mr. Harvey said, adding that the lack of marketing for the plan could be a factor.

About 1 percent of Reliant's sales now are for renewable power.

Since Green Mountain launched in Texas in 2001, the company has marketed its wind-power plan at a higher price than the incumbent provider's offer.

Green Mountain recently raised its rates along with almost every power marketer in the state and added hydroelectric power to its mix for residential customers.

For that plan, an average consumer pays about \$6 per month more than the TXU rates. For the wind-only plan, it's about \$10 per month more.

Green Mountain has long insisted that its biggest hurdle to attracting customers isn't price; it's making consumers aware of a pollution-free option.

Among new customers, "We are seeing significantly more sales of the higher-priced 100 percent wind product," said John Savage, the company's Texas region president.

As wind power programs gain popularity, officials say the cost of wind turbines will continue to fall and their efficiency will increase, according to the Mr. Swisher of the wind trade group, and others.

"It seems like every time I turn around, the cost of wind continues to decline in ways I didn't even think were possible," he said.