

OPINION

Give Texans choices in power emergencies

Residents could decide to pay more for electricity instead of enduring blackouts

By SETH H. GIERTZ

Over the past week, Texans braved snow and bitter cold, often without power. The outages have made a difficult situation much worse. With freezing temperatures across the state, power disruptions were not only inconvenient, but life-threatening.

However, a simple change could help make these types of emergencies more bearable. Namely, allow the free market price system to help in allocating energy usage during the crisis. This is a realistic option in Texas where most all homes are equipped with smart reader technology, monitoring electricity over 15-minute intervals.

As a result of the storm and energy debacle, Gov. Greg Abbott has quickly made reform of the Electric Reliability Council of Texas an emergency item in the state's ongoing legislative session. What investment or precautions should be undertaken to prepare for extreme cold going forward is an important topic. However, my focus is on how to allocate resources during an emergency, when we must make do with the infrastructure already in place.

For the state's leaders, the disaster has proved a source of embarrassment. Many Texas Republicans have long derided California for its history of rolling blackouts, taking great pride in the Texas electric grid. However, shortages result not from the quality of an electrical grid but from a reluctance



Ricardo B. Braziell/Austin American-Statesman

Brett Archibald entertained his family Tuesday as they tried to stay warm in their home in the Blackhawk neighborhood in Pflugerville, north of Austin. Most homes in the area were without power as Atmos Energy and other power companies were performing rotating outages to protect the electric grid.

to use market prices to allocate scarce resources.

As a result of the storm, energy became much scarcer than before. Supply was sharply curtailed as power plants were knocked offline, while demand for electricity and natural gas shot up. Scarcity is a fact of life. We have different ways of addressing it, but we cannot eliminate it.

To its credit, the Public Utility Commission of Texas raised prices, noting that "Energy prices should

reflect scarcity of the supply." However, regulatory caps on energy prices, maybe reasonable in normal times, prevented the commission from allowing prices to rise sufficiently to address shortages.

According to ERCOT, the state's energy capacity fell by about one-third below peak usage early Monday morning. This understates the gravity of the situation, since usage would have surely increased further, had capacity permitted.

Faced with this calamity, Texans were implored to conserve energy, but the economic signals were not consistent with this message. Prices for energy on the wholesale and retail markets were held well below market-clearing rates. Rolling blackouts further exacerbated overconsumption, fostering a catch-as-catch-can approach to electricity usage. You better use as much as you can now because you don't know when it is going away.

Instead of rationing electricity via rolling blackouts, prices to consumers should have been drastically increased until the shortage was eliminated. Of equal importance, this should have been loudly communicated (through media and other channels) to all Texans. Unlike rationing, the market-based approach allows consumers to use energy as they see fit, accounting for the true costs of this use.

There are all sorts of ways for people to economize, which they won't (or can't) pursue unless they are made to bear the costs and benefits from such actions. For example, multiple families could gather in a single house or apartment, sharing the energy costs. This is not a good option, if all dwellings are going to be mostly without power. But this may be an excellent idea if it allows for a lot of heat in one dwelling and for the emergency guests to turn off most of their electricity.

Given the severity of the storm and the state's energy infrastructure, some areas were surely going to lose power. And adjusting prices would not work perfectly — maybe necessitating some blackouts, albeit fewer and for shorter durations. The right question is not whether all would have been well if drastic price increases were allowed. The right question is whether this would have been better than the alternatives. I think the answer is clearly yes.

Economics emphasizes trade-offs rather than solutions. Texans surely will be upset at the prospects of paying much more for energy during their time of greatest need. However, the option to consume energy, when one needs it, is surely superior to long periods with no such option.

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