

**SUBJECT:** Repealing the state's goal for generating capacity from natural gas

**COMMITTEE:** State Affairs — favorable without amendment

**VOTE:** 9 ayes — Solomons, Menendez, Cook, Farabee, Gallego, Lucio, Maldonado, Swinford, S. Turner

5 nays — Craddick, Geren, Harless, Hilderbran, Jones

1 absent — Oliveira

**WITNESSES:** For — Bill Peacock, Texas Public Policy Foundation; (*Registered, but did not testify:* John W. Fainter, Jr., Association of Electric Companies of Texas; Cyrus Reed, Lone Star Chapter, Sierra Club; Tom “Smitty” Smith, Public Citizen)

Against — Adam Haynes, Texas Independent Producers and Royalty Owners; (*Registered, but did not testify:* Darrick Eugene, Denbury Resources, Inc.; Mark Gipson, Devon Energy; Julie W. Moore, Occidental Petroleum; Gardner Pate, EOG Resources; Steve Perry, Chevron USA; Grant Ruckel, ONEOK, Texas Gas Service; Lindsay Sander, Kinder Morgan; Ben Sebree, Texas Oil and Gas Association; Tom Sellers, Conoco Phillips)

On — (*Registered, but did not testify:* Jess Totten, Public Utility Commission)

**BACKGROUND:** In 1999, the Legislature enacted SB 7 by Sibley, which provided, under the Utilities Code, sec. 39.9044, that it is the intent of the Legislature that 50 percent of the megawatts of generating capacity installed in this state after January 1, 2000, use natural gas. To the extent permitted by law, the Public Utility Commission is required to establish a program to encourage utilities to comply by using natural gas produced in this state as the preferential fuel.

**DIGEST:** HB 395 would repeal the Utilities Code, sec. 39.9044, establishing a state goal of 50 percent of the megawatts of generating capacity installed in this state after January 1, 2000, using natural gas.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2009.

**SUPPORTERS  
SAY:**

HB 395 would repeal a provision in the Utilities Code that encourages natural gas to be the preferential fuel source. The Governor's Competitiveness Council in its 2008 Texas State Energy Plan recommended that the Legislature repeal this provision in order to ensure that a diverse mix of resources is developed in Texas. An influx of natural gas capacity has led to a fuel mix in Texas that, when measured both on the basis of installed generation capacity and energy produced from that capacity, illustrates an extreme reliance on natural gas. Because of this heavy reliance on natural gas, the price of electricity in the wholesale market within ERCOT has become closely correlated with natural gas prices. Texas is trying to diversify its energy sources, not only to minimize the effects of price volatility but to decrease the vulnerability created by too much dependence on one fuel source.

Texans deserve the cheapest possible electricity. The state should not dictate which fuel is used to generate that electricity. Last year the price of natural gas sky-rocketed. Because the price of electricity is closely correlated with natural gas prices, the price of electricity sky-rocketed also. That trend is likely to repeat itself. It should be up to the generators and the market to choose the most economical source for fuel.

The provision outlined in PURA is an arbitrary goal that is no longer necessary to have in statute. Natural gas may be an abundant, clean source of energy that creates jobs in this state, but there are other fuel sources, such as solar and other renewables that offer the same benefits.

**OPPONENTS  
SAY:**

Natural gas is a good, clean fuel that is produced abundantly in Texas. This was recognized by the Legislature in 1999, and goals were placed in statute to encourage the use of natural gas produced in this state as the preferential fuel. That was a good policy then and it is a good policy now. The provision in PURA is simply a goal, not a mandate. There is no reason to repeal this provision.

Encouraging the use of natural gas is good for the state. Because natural gas is an abundant, home-grown fuel source, there are many benefits to its use beyond the positive environmental impacts. For example, natural gas production in Texas means jobs and revenue in the state. About 189,000

Texans currently work in the oil and gas industry and for every job created, an additional nine satellite jobs are created. Also, natural gas production is a huge tax base for school districts.

Natural gas is an important component of the state's fuel mix, and promoting its use is good for the whole state.