

Paul Hudson  
Chairman



## Public Utility Commission of Texas

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September 7, 2005

The Honorable Kathleen Hartnett White  
Texas Commission on Environmental Quality  
12100 Park 35 Circle  
Austin, Texas 78753

Dear Chairman White:

At the outset, please allow me to acknowledge my deference to your expertise on matters related to the permitting of air emissions as they relate to new generation in our state. Fulfilling your statutory obligation is paramount, and I have no wish to interfere with any future decision that the Texas Commission on Environmental Quality (Commission) may make on particular projects.

In an effort to reach across the traditional bounds in which we respectively operate however, I consider it important to inform you of certain contextual facts surrounding current and future permit requests for new generation in the state of Texas.

With your help, Texas has been fortunate over the last decade. Adding approximately 26 gigawatts of new natural gas generation and nearly 2 gigawatts of wind has resulted in a relative surplus of clean, efficient energy. However, detailed trend analyses conducted by the Electric Reliability Council of Texas (ERCOT) and the Public Utility Commission of Texas suggest certain facts that I believe merit your consideration.

- Over the last two years, approximately 13 gigawatts of older natural gas generation has been announced for retirement or mothballing.
- Current coal and nuclear fueled power plants are at least 15 years of age, and many are much older. As these plants mature to retirement, their removal from service will represent a significant future obstacle to generation adequacy.
- The expansion of Texas' reliance on natural gas generation has come with certain costs -- a vulnerability to run-ups in natural gas pricing.
- Future trend analysis through 2025 suggests that Texas will require a minimum of 86,513 megawatts of generation to meet peak load. This is some 26,000 megawatts greater than current peak load and accounts for no reserve margin.

Additionally, I have attached a chart to this letter that demonstrates forecasted trends for ERCOT. Under certain scenarios, generation adequacy will present a formidable challenge for the state.



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For these reasons, I believe emphasis on the diversity and growth of our generation fleet (and energy efficiency) continues to be critical to system reliability and affordability.

As you proceed with your deliberations over the coming weeks and months, I hope you will recognize that under the circumstance where coal-fired facilities meet all obligations with respect to emissions and air quality, they will offer electricity retailers and their customers a long-term hedge against fluctuating natural gas prices.

Knowing full well the many interest groups advocating on, for and against various issues before the Commission, I do not envy the difficult decisions you have ahead. Thank you for your service to the state.

With Warmest Regards,



Paul Hudson  
Chairman

cc: Commissioner Ralph Marquez  
Commissioner Larry R. Soward

# ERCOT GENERATION CAPACITY AND DEMAND PROJECTIONS

