Wiring America: The Short- and Long-Run Effects of Electricity Grid Expansion*

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Abstract

This paper examines the impact of large-scale grid expansion on markups and emissions from fossil fuel generators in the short run and wind investment in the long run. I focus on the rollout of a grid expansion project that linked windy areas in West Texas to population centers in the east, costing \$6.8 billion. Results indicate large benefits due to declines in markups, emissions, and higher wind investment with a short payback period of 7.6 years. These findings highlight the potential to unlock significant economic benefits from transmission expansion, a key factor in achieving decarbonization in the US.

JEL Classifications: L11, Q40, Q41, Q53.

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1 Introduction

A critical factor in achieving electrification and decarbonization in the coming decades is massive investment in expanding the power grid. Because most wind and solar farms in the US are located far from demand centers, high-capacity transmission lines are necessary to move this electricity over long distances. Thus, investment in transmission lines is crucial to fully realize the benefits of renewable energy and achieve ambitious energy policy targets.¹

Inadequate transmission capacity impedes the integration of electricity from renewable sources and enhances the market power exerted by fossil fuel generators (Borenstein, Bushnell, and Stoft 2000; Joskow and Tirole 2005). The resulting welfare loss due to market power and the forgone benefits from lower emissions can be hundreds of millions of dollars annually (Woerman 2023; Fell, Kaffine, and Novan 2021). I add to the empirical evidence on this issue by analyzing the short-run impact of grid expansion on price-cost markups and emissions from fossil fuel generators. The main innovation of my approach is to provide an empirical framework to study both the market and nonmarket impacts of increased transmission capacity, with the advantage of comparing the potential benefits from both channels.

Grid expansion can also speed up the transition to green energy in the long run. Ignoring these effects understates the economic benefits of transmission expansion. However, any analysis to quantify this response is complicated due to endogeneity from nonrandom siting of electricity transmission. I provide one of the first causal estimates on the effect of transmission expansion on long-term investment in renewable energy. To do so, I exploit rich spatial and temporal data from the rollout of a large-scale transmission expansion project called Competitive Renewable Energy Zones (CREZ) in Texas.

For the short-run analysis, I write a model of optimal bidding to understand how transmission expansion affects a fossil fuel generator's incentives in setting markups.² The model includes a geographically distinct renewable sector which is connected to the demand centers and the fossil fuel sector through high capacity transmission lines. I develop this model in the context of a uniform auction wherein the generator participates by bidding on the price and quantity of electricity. I focus on the case of a marginal gen-

^{1.} This issue has been covered widely in both energy and popular news outlets, pointing out the imminent necessity to build transmission lines in order to dramatically cut carbon emissions and achieve ambitious energy goals (New York Times 2016; Temple 2017; Meyer 2021).

^{2.} This model is most closely related to the one developed by Ryan (2021), who derives the optimal bidding condition for a fossil fuel generator and applies it in the context of the Indian electricity market.

erator because whose optimal bid determines the wholesale price. The corresponding markup set by the generator is the 'realized markup.'

My model yields insights on how transmission expansion affects realized markups. In the short run, transmission expansion integrates wind energy into the grid, which affects the marginal fossil fuel generator in two ways: first, by displacing the energy production from the generator, and second, by changing the slope of its residual demand curve. The overall impact of transmission expansion on markups is driven by the extent to which grid expansion integrates electricity from wind and the impact of additional wind on markups.

The above finding from the theoretical model motivates the empirical strategy for the short-run analysis. I use a fixed effects model to estimate the empirical analogs of the relationship between transmission expansion and markups. In the first step, I estimate the effect of transmission expansion on hourly wind generation, followed by the impact of wind generation on hourly markups. The empirical specifications flexibly control for confounding factors like electricity demand and seasonality that could be correlated with wind generation and markups. I find that the CREZ expansion led to moderate decreases in markups, with the magnitude of reduction strongest during periods of high wind generation. A back of the envelope analysis shows a \$227 million annual reduction in rents collected by fossil fuel generators from electricity consumers. These transfers are policy relevant, as they can lead to lower retail prices with potential distributional and welfare implications in the medium term.

I use the same empirical framework to study the impact of CREZ expansion on hourly emissions across different regions of Texas. I find a decline in emissions on the order of \$123 million annually, with about 70 percent of these benefits from the decline in carbon emissions and the remaining share from lower local SO₂ and NOx emissions. The decline in emissions is dampened by ramping up of coal generators in West Texas and Houston as a result of wind intermittency. These ramp-up effects offset some of the emission benefits of grid expansion in the short-run.

Next, I estimate the magnitude of long-run investment in wind generation in response to investment in electricity transmission. The identification challenge here is that locations with superior wind quality were selected to site CREZ lines. I use a combination of matching and selection on observables to address the selection issue. I use Coarsened Exact Matching (Iacus, King, and Porro 2012) to match the counties on a wide range of pre-treatment observable dimensions that affected both selection into CREZ and investment in wind energy. These factors include historical wind capacity, wind resource quality, land price, terrain ruggedness, ERCOT Load Zones, and county level regulation and demographics.

Regressions using the matched sample suggest that counties with investment in grid infrastructure saw 74 MW (+205%) higher wind capacity, 40 more turbines (+249%), and about 29 MW (+109%) bigger wind projects over 2012 to 2019. This additional wind capacity prevented approximately \$271 million in damages from carbon emissions in Texas in 2020. These findings add empirical evidence on the long-run value of investment in transmission expansion.

The long-run specifications include control variables that account for unobserved characteristics of transmission line expansion that could be correlated with wind investment. These variables include matching characteristics, indicators for county-level wind ordinances, and Production Tax Credit expiration, as well as matching groups by time trend fixed effects. Moreover, these results are robust to a battery of tests to address various threats to identification in the matching exercise. These tests check for selection on unobservables, including county-level lobbying efforts for or against CREZ expansion, spillovers to control counties, anticipation of CREZ announcement, spillovers due to output prices and input prices of wind, and project extensions near the announcement date which could influence location selection.

While transmission expansions are expensive endeavors, the benefits accrue over time. However, my analysis indicates shorter payback periods than the ones reported in the literature. The CREZ project cost about \$6.8 billion and my estimates imply a payback period of about 7.6 years. These estimated benefits are in conjunction with many additional benefits, such as enhanced grid reliability, reduced transmission congestion,³ and less local pollution. Therefore, these estimates are lower-bound numbers. The findings from this paper also provide insights for grid expansion in other parts of the US. The theoretical model and the empirical strategy can be applied to regions such as the Midwest and the Southwest, where transmission expansion would integrate renewable resources into the grid and lead to reductions in both emissions and market power associated with the fossil fuel sector.

Related Literature. This study builds on the insights from several sets of papers. First, it adds to the extensive literature on the incidence and consequences of market power in wholesale electricity markets. Studies focused on post-deregulation electricity markets have found that market power contributes to high wholesale prices (Borenstein,

^{3.} Transmission lines are said to be congested when they operate at maximum capacity. Some of the main reasons for transmission congestion are insufficient transmission capacity and spike in demand due to weather conditions.

Bushnell, and Wolak 2002) and misallocation of generating resources due to sub-optimal bidding behavior (Hortacsu and Puller 2008; Hernández 2018). The existence of market power in sequential electricity markets causes a lack of arbitrage, which results in price premia across markets (Saravia 2003; Borenstein et al. 2008; Ito and Reguant 2016). Several studies have highlighted the role of financial arbitrage (Borenstein et al. 2008; Birge et al. 2018; Mercadal 2018), vertical structures, and forward contracting in mitigating market power (Bushnell, Mansur, and Saravia 2008).

Second, I contribute to the literature focusing on the value of transmission infrastructure in mitigating market power in electricity markets. Theoretical studies in this area employ Cournot models and simulations to show how expansion in transmission capacity leads to more competition and mitigates the effects of market power (Borenstein, Bushnell, and Stoft 2000; Joskow and Tirole 2000, 2005). Recent empirical literature has looked at role of transmission constraints in exacerbating the market power exercised by generating firms (Ryan 2021; Woerman 2023). I make theoretical and empirical contributions to this literature by developing an auction-based model of the marginal fossil fuel generator and estimating the empirical analogs of the comparative statics of this model.

Third, I add to the recent literature looking at the link between transmission expansion, wind energy, emissions, and wholesale electricity prices. This builds upon the empirical literature in economics exploring the impact of renewable generation in lowering emissions in the power sector (Cullen 2013; Kaffine, McBee, and Lieskovsky 2013; Novan 2015; Fell and Kaffine 2018). Recent papers find that CREZ led to a significant reduction in wholesale market prices (LaRiviere and Lyu 2022), congestion risk, and the cost of hedging (Doshi and Du 2021). Fell, Kaffine, and Novan (2021) study how CREZ expansion enhanced the environmental value of wind measured by emissions avoided.

Finally, along with Gonzales, Ito, and Reguant (2023), I add to the evidence that transmission expansion incenitivizes investment in renewable development. Using a structural model, the authors show evidence of anticipatory investment in solar energy in response to transmission line expansion in the Chilean electricity market. My analysis provides more granular evidence that locations with investment in transmission infrastructure see significantly higher renewable investment than elsewhere.

Outline. The remainder of this paper is organized as follows. Section 2 describes the institutional context along with the CREZ expansion project. I provide a description of the data and some summary statistics in Section 3.3. The short-run analysis of markups and emissions is presented in Section 3 and Section 4, respectively. Section 5 shows the long-run analysis and Section 6 provides a concluding discussion.

2 Institutional Details

2.1 The Texas electricity market

The Texas electricity market is one of the major deregulated electricity markets in the US. Electric Reliability Council of Texas (ERCOT) is mandated to maintain system reliability and manage the wholesale and retail electricity markets in Texas. ERCOT also schedules the dispatch of generators in order to meet demand for electricity at all times. ERCOT oversees more than 46,500 miles of electricity transmission and 700 generators serving electricity demand from over 26 million consumers over the state of Texas. As of 2020, natural gas represented about 51 percent of electricity generating capacity followed by 25 percent by wind and 13.4 percent by coal (ERCOT 2021). In terms of emissions, in 2019, the power sector in Texas contributed about 212.4 million metric tonnes of carbon emissions, about 12.3 percent of the total carbon emissions from the power sector in the US (EIA 2019). Clearly, Texas is an important context to study the behavior of fossil fuel generators and their environmental impact.

Figure 1a shows the distribution of all the utility scale wind projects and fossil fuel generators (\geq 10 MW) in Texas along with the five major demand centers - Houston, Austin, Dallas, Forth Worth, and San Antonio. Most of the wind farms in Texas are located in the wind-rich Panhandle and West, while most of the fossil fuel capacity and major demand centers are located in the East and South. The Texas electricity market is connected by a network of transmission lines that carried about 74,820 MW of electricity at a record peak demand on August 12, 2019 (ERCOT 2021).⁴

2.2 Competitive Renewable Energy Zones

Competitive Renewable Energy Zones (CREZ) was a large-scale transmission expansion project aimed at integrating electricity generation from wind farms located in the West to the major demand centers in the North, South, and Houston zones (Figure 1b). The project, commissioned in 2008 by the Public Utilities Commission of Texas, was aimed at accommodating over 18.5 GW of electric power by building about 3,600 circuit miles of 345 kV electricity transmission lines. However, the transmission lines are open access, meaning that the use is not limited to wind generators (Billo 2017). These lines were built over a period of 2011 through 2013 with a total cost of approximately \$6.8 billion. All

^{4.} To put this in perspective, this amount of electricity is equivalent to powering about 15 million Texas homes during periods of peak demand (ERCOT 2021).

of the CREZ-based transmission lines were placed in service by December 2013 (Lasher 2014).



Figure 1: ERCOT Zones and CREZ transmission expansion

(a) Wind farms and fossil fuel generators (b) CREZ lines and substations Note: Figure 1a shows the geographic distribution of various electricity generators in Texas. Fossil Fuel generators include coal, natural gas, petroleum, and other gas based generators. Petroleum and other gas based generators are only 2 percent of total generators in Texas. Red triangles mark the locations of the five biggest population centers in Texas. Figure 1b shows the location of the CREZ transmission lines.

3 Short-run impact of CREZ expansion on markups

3.1 Transmission Constraints and Market Power

For this analysis, I focus on the real-time electricity market, which sets the expectation for prices in the day-ahead and forward markets (Potomac Economics 2019). The main purpose of a real-time market is to match supply with demand while operating the transmission system within established limits. Real-time operations involve the participation of various market participants, including generators, retailers, transmission service providers, and distributors. ERCOT manages the efficient operation of the realtime market, including scheduling the dispatch of generators to meet the demand at all times using a series of sequential auctions.

Electricity transmission enables the flow of electricity from the generating units to the demand centers. Generators are scheduled to dispatch in an increasing order of electricity generating costs. Thus, renewable generators are always scheduled to dispatch first, followed by fossil fuel units. Natural gas generators are typically dispatched to meet any sudden surge in demand at peak hours.

Transmission lines operate under certain capacity limits that need to be maintained. Inadequate transmission capacity between the West and other parts of Texas can lead to congestion, thereby preventing the export of electricity from the wind-rich West to demand centers in the East and South.⁵ The presence of transmission constraints would cause ERCOT to schedule electricity from local generating units that are typically fossil fuel fired generators. This not only results in emissions that could have been offset by clean wind-based energy but also incentivizes local fossil fuel generators to charge markups over their marginal cost of production.⁶ Transmission expansion is a key public policy investment aimed at relieving transmission congestion and integrating renewable generators into the grid. As I show in the theoretical model below, transmission expansion affects the markup charged by fossil fuel generators.

3.2 A Model of Optimal Fossil Fuel Markups

The theoretical model in this section aims to understand the effect of transmission expansion on the pricing decision of a profit-maximizing fossil fuel generator. I borrow elements of the merchant transmission investment model by Joskow and Tirole (2005) and Ryan (2021), but extend these by including a renewable sector that is geographically distinct from the demand centers and the fossil fuel sector. The renewable sector is connected to the demand centers via high capacity transmission lines. In what follows, I present the optimal markup rule for a fossil fuel generator and provide intuition on how it is affected by the transmission expansion.

3.2.1 Model Setup

In this model, I focus on the pricing decision of a profit-maximizing fossil fuel generator *i* located in region \mathcal{E} . Generator *i* submits an offer curve that is a vector of supply quantities Q_i at bid prices b_i , while incurring cost $C_i(Q_i)$. The optimization problem of *i* entails finding the offer curve that maximizes its profit function $\pi_i(p) = p \cdot Q_i(p) - C_i(Q_i(p))$, where *p* is the market-clearing price.

^{5.} Transmission lines are said to be congested when they operate at maximum capacity. This is another way of saying that transmission constraints between two points A and B are binding. Some of the reasons for transmission congestion or binding transmission constraints are increase in demand due to weather conditions, outages, and insufficient transmission capacity, to name a few.

^{6.} Please refer to Appendix B for an example that illustrates this phenomenon.

The generator faces uncertainty over the offer schedules $\mathcal{E}_{-i} = (b_{-i}, Q_{-i})$ from other competitive fossil fuel generators (-i) in \mathcal{E} .⁷ Generator *i*'s optimization problem is:

$$\max_{b_i,Q_i} \mathbb{E}_{\mathcal{E}_{-i}} \left[p \cdot Q_i(p) - C_i(Q_i(p)) \right]$$
(1)

Market demand in \mathcal{E} is denoted by $D^{\mathcal{E}}$ and is assumed to be perfectly inelastic. Generator *i* faces a downward-sloping residual demand curve $D_i^r(p, q_w; K)$ comprised of three elements: demand for electricity $D^{\mathcal{E}}$, electricity generated from wind farms in region \mathcal{W} denoted by $q_w(K)$, and electricity generated from competitor fossil fuel generators, $Q_{-i}(p, q_w; K) = \sum_{j \neq i, j \in \mathcal{E}} Q_j(p, q_w; K)$.

Regions \mathcal{E} and \mathcal{W} are connected by transmission lines K which enable the export of electricity from wind farms in \mathcal{W} . Thus, q_w is a function of available transmission capacity K. I express Q_{-i} as a function of $q_w(K)$ because the dispatch of a fossil fuel generator is conditional on the amount of electricity from wind.⁸ Thus, $D_i^r(p, q_w; K)$ is,

$$D_{i}^{r}(p,q_{w};K) = D^{\mathcal{E}} - q_{w}(K) - Q_{-i}(p,q_{w};K)$$
(2)

The market clears when electricity generated by *i* equals residual demand, i.e., $Q_i(p) = D_i^r(p, q_w; K)$. For the ease of notation, I express $q_w(K)$ as q_w . The market-clearing price *p* and the supply $Q_i(p, q_w; K)$ depend on the optimal bid price b_i that solves the generator *i*'s problem:

$$\max_{b_i} \mathbb{E}_{\mathcal{E}_{-i}}[pD_i^r(p,q_w;K) - C_i(D_i^r(p,q_w;K))]$$

8. Wind-based electricity generation incurs zero marginal cost and is always scheduled to dispatch first. I assume $D^{\mathcal{E}} > q_w$ which ensures that fossil fuel generators are scheduled to dispatch in order to meet the remaining demand of $D - q_w$ units of power. Note that, $Q_{-i}(p, q_w; K)$ is strictly increasing in p and strictly decreasing in $q_w(K)$. The interpretation of these assumptions is as follows:

- 1. $\frac{\partial Q_{-i}}{\partial p} = \sum_{j \neq i, j \in \mathcal{E}} \frac{\partial Q_j}{\partial p} > 0$: generators have greater incentives to supply electricity at higher prices.
- 2. $\frac{\partial Q_{-i}}{\partial q_w} = \sum_{j \neq i, j \in \mathcal{E}} \frac{\partial Q_j}{\partial q_w} < 0$: electricity generated from wind displaces a non-zero amount of electricity

from fossil fuel generators.

^{7.} For simplicity, I abstract away from any forward position generator i has. In Appendix, I consider an extension of this model which considers the forward market. The key finding and intuition does not change.

Taking a first-order condition with respect to b_i and rearranging,

$$\implies \mathbb{E}_{\mathcal{E}_{-i}}\left[\frac{\partial p}{\partial b_i}\left(D_i^r(p,q_w;K) + \frac{\partial D_i^r(p,q_w;K)}{\partial p}\left[p - C_i'(D_i^r(p,q_w;K))\right]\right)\right]\Big|_{p=b_i} = 0 \quad (3)$$

 $\frac{\partial p}{\partial b_i}$ is the slope of the market-clearing bid price and is equal to one if the bid is marginal and zero otherwise. I focus on the marginal generator, whose optimal bid b_i determines the market-clearing price. For simplicity, I assume constant marginal cost, i.e., $C'_i(D^r_i(p, q_w; K)) = c_i$, as well as full information on other generators' strategy. Equation (3) reduces to,

$$p - c_i = -\frac{D_i^r(p, q_w; K)}{\partial D_i^r(p, q_w; K) / \partial p}$$
(4)

Equation 4 shows that the 'realized markups' is a function of residual demand and its slope (which is a negative quantity). The numerator measures how generator *i*'s production decision affects markups. The denominator shows that with a flatter residual demand curve, generator will find it optimal to set lower markups, whereas a steeper residual demand curve implies higher markups.

3.2.2 Model illustration and predictions

For intuition on the model predictions, consider the hypothetical electricity dispatch curve shown in Figure 2a. The supply side assumes four fossil fuel generators, indexed by their offer/bid price c_j (j = 4) of supplying electricity. The dispatch curve is a step function of generators arranged in increasing order of the offer price. The dotted vertical line (D) is the demand for electricity and is assumed to be fixed in the short run. Generators are dispatched in increasing order of the offer price until the demand is met. The generator(s) dispatched with the highest offer price is the marginal generator, which determines the wholesale price of electricity. In this case, generator *i* submits the highest offer price c_4 and is thus the marginal generator. Note that I assume the marginal generator to remain fixed throughout this analysis.

Next, to characterize the effect of transmission line (K) expansion on markups, I perform a comparative statics exercise by partially differentiating Equation (4) with respect to K. Simplifying and expressing the resulting expression as a percentage change in markups:

$$\frac{\frac{\partial(p-c_i)/(p-c_i)}{\partial K}}{\frac{\partial K}{\partial K}} = \underbrace{\left[\frac{1}{D_i^r(p,q_w;K)} \cdot \frac{\partial D_i^r(p,q_w;K)}{\partial K}\right]}_{\Delta \text{Displacement}} - \underbrace{\left[\frac{1}{\frac{\partial D_i^r(p,q_w;K)}{\partial P_i(p,q_w;K)}}\right]}_{\Delta \text{Slope}} \cdot \frac{\frac{\partial^2 D_i^r(p,q_w;K)}{\partial P_i(p,q_w;K)}\right]}{\Delta \text{Slope}}$$
(5)

 Δ **Displacement.** The first term in Equation 5 shows that changes in transmission capacity *K* can affect markups due to a *displacement* of generator *i*'s residual demand curve.

$$\frac{\partial D_i^r(p, q_w; K)}{\partial K} = \frac{\partial D_i^r(p, q_w; K)}{\partial q_w} \cdot \frac{\partial q_w}{\partial K}$$
(6)

With the stock of wind generating capacity fixed in the short run, $\frac{\partial q_w(K)}{\partial K} (\geq 0)$ is the amount of wind integrated into the grid due to transmission expansion. This additional wind q_w displaces electricity generated from *i*, shown as the hatched area in Figure 2b. This can be summarized as:

Result 1 Integration of wind due to transmission expansion leads to a displacement of a marginal generator's residual demand curve.

$$\frac{\partial D_i^r(p,q_w;K)}{\partial q_w} < 0 \tag{7}$$

Thus, electricity from wind shifts the dispatch curve to the right, displacing power by generator *i*. This is reflected as an inward shift of *i*'s residual demand curve, which in turn reduces its ability to set higher markups. As shown in Figure 2c, with the generator moving from point A to point B of its offer curve after wind integration. Compared to point A, point B is associated with a flatter region of the offer curve, thereby lowering the markups.

 Δ **Slope.** This term measures how changes in transmission capacity affect the slope of generator *i*'s residual demand curve. Taking the derivative of the slope of *i*'s residual demand curve with respect to *K* yields,⁹

$$\frac{\partial^2 D_i^r(p, q_w; K)}{\partial p \partial K} = -\frac{\partial^2 Q_{-i}(p, q_w; K)}{\partial p \partial q_w} \cdot \frac{\partial q_w}{\partial K}$$
(8)

Equation 8 shows that heterogeneity in the cost of electricity generation could lead to steeper or flatter electricity dispatch curves at the margin.¹⁰ For example, during periods of low demand, the dispatch curve tends be more elastic (flatter) whereas during

^{9.} Recall that the demand for electricity $(D^{\mathcal{E}})$ and wind generation $(q_w(K))$ are invariant to changes in p, the slope of $D_i^r(p, q_w; K)$ depends only on the production decisions of other fossil fuel generators.

^{10.} Note that the slope of electricity dispatch curve is characterised by $\frac{\partial Q_{-i}(p,q_w;K)}{\partial p}$

Figure 2: Hypothetical electricity dispatch curves and the effect of wind generation on marginal fossil fuel generator



Notes: c_i denotes generator *i*'s offer/bid price to supply electricity. The vertical dotted line in Figure 2a and Figure 2b denotes the demand for electricity (D), which is inelastic in the short run. q_w is the wind integrated into the grid due to transmission expansion, and S_i denotes the supply curve of generator *i*.

periods of high demand, the dispatch curve is typically inelastic (steeper). This can be summarized as:

Result 2 *The impact of transmission expansion on the slope of the marginal generator's residual demand curve is ambiguous.*

Figure 3 illustrates this point. Figure 3a shows that a flatter dispatch curve at the margin, results in a more elastic residual demand curve characterized by a counterclockwise rotation of $D_i^r(p,q_w)$. Thus, $\frac{\partial^2 D_i^r(p,q_w;K)}{\partial p \partial K} \leq 0$, thereby reducing generator *i*'s ability to set higher markups. Figure 3b shows the opposite case, wherein a steeper dispatch curve is steeper, results in a more inelastic residual demand curve, and $\frac{\partial^2 D_i^r(p,q_w;K)}{\partial p \partial K} \geq 0$. This in turn enhances the generator's ability to set higher markups.

3.2.3 Summary of main findings

Substituting the expressions for Δ Displacement and Δ Slope in Equation 5, and simplifying yields,

$$\frac{\partial(p-c_i)}{\partial \mathbf{K}} = \underbrace{\frac{\partial(p-c_i)}{\partial q_w}}_{\geqq 0} \cdot \underbrace{\frac{\partial q_w}{\partial \mathbf{K}}}_{>0} \tag{9}$$

Equation (9) summarizes the findings from the theoretical model. It shows that the overall effect of transmission expansion on realized markups in the short run is driven



Figure 3: Rotation of generator *i*'s residual demand curve post transmission expansion

Notes: D_1^r and D_2^r denote the residual demand curves of generator *i* pre- and post-transmission expansion, respectively, and S_i denotes the supply curve of generator *i*. Counterclockwise rotation of residual demand curve in Figure 3a occurs due to a flatter dispatch curve at the margin, whereas clockwise rotation as shown in Figure 3b is a result of a steeper dispatch curve at the margin.

by two factors. The first is the effect of wind generation on markups, measured by $\frac{\partial(p-c_i)}{\partial q_w}$. The second is the extent to which transmission expansion integrates the electricity generated from wind into the grid, measured by $\frac{\partial q_w}{\partial K}$. In the empirical strategy below, I estimate the empirical analogues of each of the two components of Equation (9). The overall effect of grid expansion on markups is the product of these two components.

3.3 Data and Descriptive Statistics

I assemble multiple datasets at the generator level for the short run analysis of markups and emissions, from 2011 to 2014. Most of this data comes from publicly available sources, including ERCOT, the Energy Information Administration (EIA), and the Environmental Protection Agency (EPA).

3.3.1 Identifying marginal generators

I use publicly available data from ERCOT Report 13029 to identify the price-setting (marginal) generators and the corresponding market clearing price at every 15 minutes of the sample. This report identifies all the entities that submitted the highest-priced offers for each instance of market clearing process. Note that because Texas electricity market is a nodal market, there could be multiple marginal generators, especially during

periods of high congestion. I aggregate this data at the hourly level, therefore all the generators that appear in this data in a specific hour are regarded as marginal generators for that hour.

3.3.2 Markups

Markups are defined as p - c, where p is the Locational Marginal Price (LMP) and c is the marginal cost of production. LMP is the price of supplying one MWh of electricity at a particular location. The other component of markup is the marginal cost of production. As common in the literature, I construct marginal cost as the sum of two main components: fuel costs and emissions permit costs for SO₂ and NOx.¹¹

To compute fuel costs, I use weekly price data for coal and natural gas. For coal, I use Powder River Basin spot prices from EIA. For natural gas, I use Henry Hub Natural Gas prices from Quandl. I calculate fuel costs by multiplying fuel price by the heat rate of the generator.¹² I use hourly electricity generation data at the generator level from ER-COT and heat input data from EPA's Continuous Emissions Monitoring system (CEMS). Finally, I compute emissions permit costs using daily data on NOx and SO₂ allowance prices from S&P Global Market Intelligence. Using hourly emissions data from CEMS, I calculate the emissions rate for SO₂ and NOx by taking the ratio of emissions to net generation.

3.3.3 Global and local emissions

Another outcome of interest for the short-run analysis is the global (CO_2) and local (SO_2 and NOx) emissions. I use data on hourly CO_2 , SO_2 , and NOx emissions from fossil fuel generators from EPA's CEMS from 2011 to 2014. Because the impact of local pollutants varies across space due to differences in population densities, I use estimates

$$c_{it} = \underbrace{\mathrm{HR}_{it} \cdot p_{t}^{\mathrm{fuel}}}_{\mathrm{fuel \ costs}} + \underbrace{\mathrm{ER}_{it}^{\mathrm{SO}_{2}} \cdot p_{t}^{\mathrm{SO}_{2}} + \mathrm{ER}_{it}^{\mathrm{NO}_{x}} \cdot p_{t}^{\mathrm{NO}_{x}}}_{\mathrm{emissions \ permit \ costs}}$$

^{11.} Under the US Clean Air Act (CAA), electricity generators are subjected to emissions regulations for SO₂, NOx or both. Generators are required to purchase emission permits for each ton of emissions (SO₂ and NOx) they emit. The marginal cost c_{it} of generator *i* in period *t* is:

where HR_{*i*} is the generator level heat rate at period *t*, p_t^{fuel} is input price of fuel, ER_{*it*}^{SO₂} is the generator level emission rate of SO₂ at period *t*, ER_{*it*}^{NOx} is the generator level emission rate of NOx at period *t*, and $p_t^{SO_2/NO_x}$ are the allowance prices.

^{12.} EIA defines heat rate as the amount of energy used by a power plant to produce 1 KiloWatt hour (kWh) of electricity. It is calculated as a ratio of fuel input to net electricity generated and is expressed in British thermal units (Btu) per net kWh.

of county-specific marginal damages due to an additional ton of SO₂ and NOx from Holland et al. (2016).¹³ I combine these county-specific damage estimates with SO₂ and NOx emissions from each generator to compute the dollar value of damages from these pollutants.

3.3.4 CREZ Transmission Expansion

A key explanatory variable is the progress of CREZ transmission expansion. I use the publicly available Transmission Project and Information Tracking reports from ERCOT's website to construct a variable that tracks total miles of transmission lines built in a day under the CREZ expansion project. I express the CREZ progress variable as a cumulative ratio of total progress for ease of interpretation. As shown by Figure 4a, the CREZ started in 2010, and over 80 percent of the project was completed in 2013.

3.3.5 Descriptive Statistics

Table 1 reports descriptive statistics of key variables by fuel type. Each observation in the sample is a generator-hour combination. About 70 percent of the observations in the sample are natural gas and the remaining 30 percent are coal units. The average coal generator in my sample is almost three times the capacity of an average natural gas generator. Coal generators are also much more polluting than natural gas. Damages from carbon emissions from coal generators are about \$332/MWh, about 3 times as that of natural gas generators. Even more striking is the difference in damages from local pollutants. For each MWh of power generated, damages from NOx and SO₂ from coal generators are on average \$100 compared to \$0.76 for natural gas generators.

While the average marginal cost of coal generators is about \$6/MWh higher than the marginal cost of natural gas generators, the average markup set by a marginal natural gas generator is about four times that of a coal generator. This is because coal generators tend to operate at the margin during the night, whereas natural gas generators operate at the margin during the peak demand hours. Thus, marginal natural gas generators have greater incentives to set high markups during peak demand hours.

Figure 4b shows the hourly variation in markups, which is not apparent from Table 1. Average markups were about \$50/MWh during the peak hour of 16:00 in 2013 and over \$30/MWh in 2011 and 2012. However, markups saw a dramatic drop in 2014 across the peak hours of 14:00 to 17:00, perhaps most significantly at 16:00. While CREZ expansion

^{13.} The county-specific damage estimates reported in Holland et al. (2016) use the AP2 air pollution model to capture the geographic variation in the environmental costs imposed by local pollutants.

	Coal		Natural Gas	
	Mean	Std. Dev.	Mean	Std. Dev.
Nameplate Capacity (MW)	602.37	200.99	189.93	86.53
Marginal Cost (\$/MWh)	21.83	21.04	15.50	14.22
Realized Markups (\$/MWh)	4.18	31.97	16.58	60.40
CO ₂ damages (\$/MWh)	332.23	335.13	104.14	117.32
SO ₂ & NOx damages (\$/MWh)	102.40	138.37	0.76	2.87

Table 1: Descriptive statistics of key variables by generator fuel type

Notes: This table presents descriptive statistics of key variables by generator fuel type. Sample is marginal generator-hour observations from August 2011 - December 2014. Total # generator-hour observations (N) is 619,864. 33.12% of generator-hour observations are from coal generators and 66.88% are natural gas generators. Damages (in 2020 \$) computed using SCC of \$185/ton for CO₂ emissions (Rennert et al. 2022) and county-specific estimates from Holland et al. (2016) for SO₂ and NOx emissions.

would have contributed to this drop, there could be other confounding factors affecting this pattern too.



Figure 4: Daily CREZ progress and generator markups over the years

(a) Daily progress of CREZ expansion. (b) Average hourly realized markups (\$/MWh) Note: Figure 4a shows the cumulative share of CREZ lines (miles) completed each day from 2010 to 2014. Figure 4b shows the average hourly realized price-cost markups set by fossil fuel generators (2011 - 2014, N = 619,864).

3.4 Empirical Strategy

The findings from the theoretical model motivate the empirical strategy for the short-run analysis, wherein I estimate the empirical analogues of Equation 10.

$$\frac{\partial(p-c_i)}{\partial \mathbf{K}} = \frac{\partial(p-c_i)}{\partial q_w} \cdot \frac{\partial q_w}{\partial \mathbf{K}}$$
(10)

3.4.1 Impact of wind generation on markups

I use the following specification to estimate how additional wind generation affects markups:

$$y_{it} = \alpha_h \cdot w_t + f(\mathbf{D}_t) + \kappa_i + \delta_{hmy} + \epsilon_{it}$$
⁽¹¹⁾

where y_{it} is the markup set by marginal generator *i* at hour *t* of the sample. Markup is defined as $(p - c)_{it}$, where *p* is the Locational Marginal Price (LMP) and *c* is the marginal cost of generator *i* at period *t*.¹⁴ Wind generation (GWh) at hour *t* is denoted by w_t . The parameter of interest is α_h , which measures the change in realized markups as a result of additional wind generation for each hour *h*. Thus,

$$\alpha_h \equiv \frac{\partial (p - c_i)}{\partial q_w}$$

I use a wide variety of controls to account for potential confounding factors in Equation 11. I use a quadratic polynomial of system-wide electricity demand D_t to account for variation in markups driven by spikes in electricity demand. I use generator fixed effects (κ_i) to control for any generator-specific heterogeneity in markups. Finally, I use hour by month by year fixed effects (δ_{hmy}) to control for seasonality in the Texas electricity market. This seasonality arises due to varying wind patterns at different hours of the day over the months in a year. For example, wind generation in Texas tends to be higher during the night than during the day. Similarly, wind flow is typically higher during the spring months than the winter and summer months.

The identifying variation for α_h comes from the within-generator variation in markups caused by changes in wind generation across hours *h* within a month *m* in a given year *y*. For example, α_{16} is identified from deviations in markups from generator-specific av-

^{14.} Note that there could be multiple marginal generators at a given hour of the sample. This is because I aggregate 15 minute market clearing data to hourly level, and because ERCOT is a nodal market which could lead to multiple marginal generators especially during periods of high congestion. Therefore, using generator fixed effects allow me to look at the within-generator effect on markups.

erages across all 16:00 hours (or 4 PM) within a month, in a given year. Standard errors are clustered at the generator level to account for correlation in markups at the unit level.

3.4.2 Impact of CREZ expansion on integrating wind generation

I use the following specification to estimate the impact of CREZ expansion on wind generation:

$$w_t = \beta_h \cdot crez_d + \gamma \cdot max_t + \eta_{hm} + \xi_t \tag{12}$$

where w_t is the wind generation (GWh) in hour *t* and $crez_d$ is the percentage completion of CREZ transmission project at day *d* of the sample. The parameter of interest is β_h , which measures the integration of wind energy into the grid as a result of CREZ expansion. Thus,

$$\beta_h \equiv \frac{\partial q_w}{\partial \mathbf{K}}$$

I use the maximum predicted generation (max_t) of electricity from wind at hour t to control for the maximum energy production possible from wind at a given period. This variable incorporates the generating capacity and technology, and the real-time meteorological conditions that can affect the wind generation at hour t.¹⁵

I use hour-by-month fixed effects (η_{hm}) in Equation 12 to control for seasonality in wind generation. Thus, conditional on predicted wind generation (max_t) and η_{hm} , β_h identifies the additional wind energy integrated into the grid as a result of transmission expansion. The identifying variation comes from changes in wind generation caused by transmission expansion across the same hours in a given month. I use Newey West auto-correlation corrected standard errors with a seven-day lag structure in Equation 12. Under the identifying assumption that the fixed effects and controls account for confounding factors, α_h captures the unbiased effect of wind generation on generator markups and β_h is the unbiased effect of CREZ expansion on wind generation.

^{15.} ERCOT refers to maximum predicted generation as the High System Limit (HSL). HSL for a generation resource is defined as the maximum sustained energy production capability of that entity. HSL is determined by the generator itself and is continuously updated in real time. As shown in Figure F1, the actual electricity generated from wind (w_t) closely tracks the maximum predicted wind generation (max_t) for each hour from 2011 to 2014. The difference between w_t and max_t arises due to inadequate transmission capacity between generation and demand centers. Therefore, this difference is the amount of wind generation curtailed by ERCOT so as to maintain grid stability. However, with the CREZ expansion in 2013, we see the gap between the maximum and actual wind generation decreasing, with the lowest difference observed across all hours of 2014.

3.5 Results

Figure 5 shows the coefficient estimates of $\hat{\alpha}_h$ from Equation 11, i.e., the change in fossil fuel markups due to additional wind in the grid. On average, the drop in markups is strongest in magnitude at the peak demand hour at 4 PM, about \$9/MWh. The coefficient estimates are smallest for the off-peak hours. Due to low electricity demand and high wind generation during off-peak, fossil fuel generators typically operate on a smaller and flatter net demand curve as compared to on-peak hours, thereby lowering their ability to set high markups. In other words, the impact of additional wind in lowering fossil fuel markups is higher during the on-peak hours than during the off-peak hours.¹⁶



Figure 5: Effect of additional wind energy on realized markups

Notes: This figure shows the coefficient estimates $(\hat{\alpha}_h)$ from Equation 11. Each point estimate is the average impact of additional GWh of wind energy on generator markups (\$/MWh) for each hour. 95 percent confidence intervals constructed from standard errors clustered at the generator level.

Figure 6 presents the coefficient estimates of $\hat{\beta}$ Equation 12, i.e., the effect of CREZ expansion on wind generation. The coefficient estimates imply that keeping the stock of generating capacity fixed, CREZ integrated about 0.22 GWh of wind at midnight, and about 0.10 GWh during the peak demand hours between 3:00 and 6:00 PM. The hourly pattern of the coefficient estimates ($\hat{\beta}_h$) closely follows the hourly wind flow pattern in Texas, where the wind flow is strongest in the night compared to the day.

^{16.} The on-peak hours in ERCOT are defined as the hours between 7:00 AM and 10:00 PM Central Daylight Time from Monday through Friday.



Figure 6: Impact of CREZ expansion on integrating wind energy into the grid

Notes: This figure shows the coefficient estimates $(\hat{\beta}_h)$ from Equation 12. Each point estimate measures the average effect of CREZ expansion ($crez_d = 1$) on integrating wind generation (GWh) at each hour. 95 percent confidence intervals constructed from Newey-West auto-correlation corrected standard errors with a 7-day lag structure.

The overall impact of CREZ expansion on markups (θ) is given by the product of the impact of wind generation on markups (α_h) and the integration of wind energy (β_h),

$$\underbrace{\frac{\partial(p-c_i)}{\partial K}}_{\hat{\theta}} = \underbrace{\frac{\partial(p-c_i)}{\partial q_w}}_{\hat{\alpha}} \times \underbrace{\frac{\partial q_w}{\partial K}}_{\hat{\beta}}$$
(13)

To provide a better sense of the magnitude of $\hat{\theta}$, I show the percentage change in markups (or the semi-elasticity of markups) in response to CREZ expansion in Figure 7a. We see a clear distinction between the semi-elasticity of markups between off-peak vs. on-peak hours. The magnitude of the percent decline is highest for hours before 7:00 AM, with the maximum decrease of 6.3 percent at 3:00 AM. However, the percentage drop in markups for the on-peak hours (7:00 AM to 10:00 PM) is less than 3 percent, mainly because of the lower wind generation in these hours.

Figure 7b shows a negative trend in the markup estimates in Figure 7a by average wind generation in each hour. This is in line with the findings from the theoretical model - additional wind leads to an inward shift in the fossil fuel generator's net-demand curve, thereby reducing its ability to set high markups. The percentage decline is highest at off-peak hours and peak hours with high wind generation.





Off–Peak A On–Peak

(b) Percentage change (semi-elasticity) in markups due to CREZ by wind generation

Notes: Figure 7a shows the percentage change (semi-elasticity) and the 95 percent confidence intervals for $\hat{\theta}_h = \hat{\alpha}_h \times \hat{\beta}_h$, where $\hat{\alpha}_h$ is the hourly impact of wind generation on markups from Figure 5 and $\hat{\beta}_h$ is the hourly impact of CREZ expansion on wind integration from Figure 6. Average markups for the sample are shown above the *x* axis. Figure 7b shows the semi-elasticity values in Figure 7a, arranged by increasing wind generation in that hour. On-Peak hours: 7:00 AM to 10:00 PM.

3.6 Change in surplus from grid expansion

How do these changes in markups translate to gains or losses of producer surplus? In the short run, producers of electricity earn rents from the purchasers of electricity by exercising market power. These excess rents can lead to welfare losses in the medium to long-run due to changes in retail rates of electricity paid by end-use consumers. This would be characterized by sub-optimal consumption of electricity in the long-run (Deryugina, MacKay, and Reif 2020).

I conduct a simple back-of-the envelope exercise to calculate the changes in annual rents collected by fossil fuel generators due to lower markups as a result of transmission expansion. Using the parameter estimates from Equation 12, I first compute the counterfactual wind generation (\tilde{w}_t) in the absence of CREZ expansion. Next, I substitute \tilde{w}_t in the estimated Equation 11 to compute the counterfactual markups in the absence of CREZ expansion. Thus, the change in surplus (ΔS) from the absence of CREZ expansion is the product of change in markups ($\Delta(p - c)$) and the electricity generation from fossil fuel producers in the absence of transmission expansion (\tilde{Q}) i.e. $\Delta S \approx \Delta(p - c) \times \tilde{Q}$.

I make two simplifying assumptions to compute surplus. First, I assume that the gap between actual wind generation (w_t) and the counterfactual wind generation without CREZ (\tilde{w}_t) is met by the fossil fuel generators. In other words, the additional electricity from wind would have been supplied by the fossil fuel generators in the absence of the CREZ; therefore, $\tilde{Q}_t = Q_t + (w_t - \tilde{w}_t)$. Second, I assume constant marginal costs; thus, lower markups are reflected in a lower wholesale price of electricity (or LMP) for each marginal generator.

This counterfactual analysis finds that generators would have accrued about \$753 million (2020 \$) over the sample period of my analysis in the absence of CREZ expansion. This is about a \$227 million annual reduction in transfers from retailers to generators in the short run and from consumers of electricity in the long run. Note that this analysis does not include welfare gains due to more efficient dispatch of electricity generators. Thus, these figures are likely the lower-bound estimates of the decline in producer surplus due transmission expansion.

4 Short-run impact of CREZ expansion on emissions

Next, I examine how integration of wind due to transmission expansion affected the emissions from the marginal fossil fuel generator(s) which typically respond to changes in demand by ramping up or down. Variation in the fuel types of generators at the

margin over the course of a day makes it informative to study which generators respond due to changes in wind generation. For example, coal-fired generators typically operate at the margin at night, whereas natural gas generators are the marginal units during the day, since they are quicker to ramp up or down to meet any sudden changes in demand. The additional electricity from wind in the night could therefore displace high-polluting coal generators from the margin and thereby reduce emissions.

I run the following regression to estimate the impact of additional wind capacity on marginal emissions:

$$E_{zt} = \rho_{zh} \cdot w_t + f(D_{zt,t-1}) + \alpha_z + \delta_{hmy} + \epsilon_{zt}$$
(14)

where E_{zt} is the total emissions from fossil fuel generators at the margin in zone z and w_t is the wind generation at hour t of the sample. The parameter of interest is ρ_{zh} , which measures the effect of an additional GWh of system-wide wind generation on the marginal emissions in zone z at hour h.

I use a cubic polynomial of contemporaneous and lagged demand for electricity $D_{zt,t-1}$ at the zone level to control for the variation in marginal emissions due to changes in demand. Fixed effects δ_{hmy} control for average emission levels at hour *h* in month *m* in year *y*. Conditioning on these averages controls for patterns in wind generation that could also be correlated with variation in emissions. To account for baseline level of emissions across the zones, I use zone fixed effects α_z . Standard errors are clustered at the daily level to account for serial correlation. I restrict my analysis to the four main load zones in Texas: West, North, South, and Houston.

4.1 Results

4.1.1 Impact on marginal carbon emissions

Figure 8a shows the estimates of ρ_{zh} from Equation 14, i.e., the effect of wind generation on carbon emissions. We see a clear decline in carbon emissions from generators across all the zones throughout the day in response to additional GWh of wind energy. The magnitude of decline in emissions is highest between noon and 10 PM in the North, South, and Houston zones. However, the drop in emissions from generators in the West is highest at night during periods of high wind.

To explore whether the pattern in Figure 8a is due to heterogeneity in generator fuel type, I estimate Equation 14 separately for the sample of marginal emissions from coal and natural gas generators. Two key insights emerge from the coefficient estimates in

Figure 8b. First, the hourly pattern for coal is similar to the pattern in Figure 8a, suggesting that the carbon emissions are mainly driven by emissions from coal generators. Second, the drop in emissions from marginal natural gas generators is mostly stable throughout the day across all four zones. This shifts the aggregate fuel type estimates in Figure 8a downward.



Figure 8: Short-run impact of wind generation on CO₂ emissions

(b) Impact of additional wind generation on CO₂ emissions by generator fuel type

Note: This figure shows the coefficient estimates of the regression of hourly zonal carbon emissions on wind generation from Equation 14. 95 percent confidence intervals constructed from standard errors clustered at the daily level.

The coefficient estimates for coal generators suggest that electricity from wind has a significant effect in lowering emissions from coal generators at the margin during the night. However, there is a spike in emissions from coal units during the early hours of the day, especially in Houston and the West. This could be a consequence of intermittent wind generation during the early hours of the day leading to ramping up of coal-fired power plants to meet the demand.

4.1.2 Impact on marginal local pollution (SO₂ and NOx)

To estimate the impact of hourly wind generation on damages from local pollutants, I use SO₂ and NOx emissions (tons) from marginal generators as the dependent variable in Equation 14. Figure 9 shows the coefficient estimates. The pattern of coefficient estimates of SO₂ in Figure 9 is similar to carbon emissions from coal generators in Figure 8b.¹⁷ The presence of sulphur impurities leads to SO₂ emissions as a byproduct of burning coal in power plants, giving rise to the finding in Figure 9. SO₂ emissions from natural gas power plants are low because of low amounts of sulphur in pipeline-quality natural gas. NOx, on the other hand, is released from burning of any fossil fuel due to the mixing of fuel and air (EPA 1998).

Since the health impacts of local pollutants vary across space due to differences in population, I use estimates of county-specific marginal damages due to SO_2 and NOx from Holland et al. (2016) to calculate the dollar value of damages due to emissions from each generator. I aggregate these damages at the zonal level and estimate Equation 14 with the damage values as the dependent variable.

Coefficient estimates in Figure 9 show evidence of significant heterogeneity across zones in damages avoided from local pollutants as a result of additional wind generation. For the South and West, additional wind leads to declines in damages from SO_2 and NOx across all hours, whereas the effect is statistically insignificant for the North. For Houston, there is a significant rise in local emissions during the early hours of the day. This is similar to the rise in carbon emissions and is indicative of the ramping up of coal generators during the early hours of the day to meet the demand.

Zooming in on West and Houston, we observe that the estimates for SO₂ and CO₂ emissions are driven by the only coal power plants in these zones. In Houston, the emissions are due to the W.A. Parish Coal Plant (four generators with total capacity of 2.7 GW), whereas in the West the emissions are due to the Oklaunion Power Plant (a single generator with 720 MW capacity). The spike in emissions is the result of ramping up

^{17.} I present the estimates for the effect of wind generation on tons of SO_2 and NOx from coal and natural gas generators in Figure F2 in the Appendix.



Figure 9: Short-run impact of wind generation on local emissions (SO₂ and NOx)

Pollutant --- SO2 --- NOx

Note: This figure shows the coefficient estimates of the regression of hourly zonal local emissions (SO₂ and NOx) on wind generation from Equation 14. 95 percent confidence intervals constructed from standard errors clustered at the daily level.

these units to meet demand during periods of low wind generation after 8:00 AM. These ramping effects are shown to undercut the emissions reductions from wind, especially with generators operating at low levels of efficient generation (Lew et al. 2012).

Thus, the availability of transmission capacity in turn promotes power from these generators during the times of wind intermittency. These ramp-up effects are concerning as these generators are located near major population centers, and the excess emissions would undercut some of the benefits from transmission expansion.

4.1.3 Value of damages avoided due to CREZ expansion

I calculate the total value of marginal carbon emissions avoided (in each zone z) due to wind integrated from CREZ expansion as, $D_z(\$) = \sum_{h=0}^{24} \tau \times \beta_h \times \rho_{zh}$. Taking the social cost of carbon, τ as \$185 per ton of CO₂ emissions (Rennert et al. 2022), β_h is the hourly average wind generation added due to CREZ in the short run, estimated in Equation 12, and ρ_{zh} is the impact of additional GWh of wind generation on marginal emissions. For local pollution, I multiply the coefficient estimates with damages (in \$) from local pollutants as dependent variables with β_h and aggregate over the hours to get the value of damage avoided per day.

Zone	CO2	SO ₂ + NO _x	Total	Percent (%)
Houston	64,178	8,710	72,888	22
North	70,328	7,173	77,501	23
South	57,974	20,044	78,018	23
West	5 2, 010	55,267	107,277	32
Total	244,491	91,194	335,685	100

Table 2: Average daily damages avoided from marginal generators due to CREZ

Notes: This table reports the daily average of damages from carbon and local pollutants avoided from marginal generators due to additional wind integrated from CREZ expansion for each zone.

Table 2 shows a decline in the estimates of daily damages from carbon emissions from generators across all the zones in the short run, with a total value of about \$244,000 worth of daily carbon emissions avoided.¹⁸ For local pollutants, the total daily damages avoided are about \$91,000, and is mainly concentrated in the West, as this is where most of the wind displaces emissions from coal generators. The value of total daily damages avoided from CO₂, SO₂ and NOx emissions are approximately \$336,000 which translates to about \$123 million annually.

5 Long-run impact of CREZ announcement on investment in wind energy

Wind developers site their projects in regions with availability and access to transmission capacity and locate near the electrical substations to deliver their power to the grid.¹⁹ In the data, I only see the counties where these substations were located and thus I call them 'CREZ counties'.²⁰ I refer to July 2008 as the "announcement date" because it provides the most accurate information about transmission siting in the CREZ project. The

^{18.} The coefficient estimates of hourly averages of damages avoided for each zone due to CREZ are presented in Figure F₃ in Appendix F.

^{19.} Electrical or transmission substations typically serve as the terminal points for high-voltage transmission lines, as well as serving as the hub for nearby generating plants to deliver their power to the grid. Appendix C presents a simple conceptual model to build intuition about a wind developer's choice of siting its project.

^{20.} I do not see the exact location of these substations because this information is restricted for purposes of national security.

technical details of the transmission expansion – the cost breakdown, expected completion dates, and the transmission service providers responsible for the expansion – were released in October 2010 in the CREZ Progress Report (RS&H 2010).²¹



Figure 10: Location of wind projects pre- and post-CREZ announcement in July 2008

Note: This figure shows wind farms in Texas pre-CREZ announcement (Jan 2001 - Jul 2008) and post-CREZ announcement (Aug 2008 - Dec 2019). Counties announced as sites for substations for CREZ lines are shown with hatching.

Figure 10 shows a cluster of wind projects located within and near CREZ counties post 2008. This could be indicative of a long-run response to transmission expansion beyond the project capacity that was planned for 2012. ²² To parse out whether certain counties saw higher levels of wind investment in the long run as a result of CREZ expansion, I estimate the following specification:

$$y_{it} = \alpha + \beta \cdot crez_i + \mathbf{X}' \Pi + \epsilon_{it} \tag{15}$$

where y_{it} is the outcome of interest. I use total wind capacity in county *i* in year *t*, average wind capacity of the project (total nameplate capacity/total number of projects

^{21.} The CREZ transmission project was selected by the Public Utilities Commission of Texas (PUCT) in consultation with ERCOT after a multi-year process in July 2008 (NREL 2008). It was aimed at accommodating 18.5 GW of total wind power: 6.9 GW by the end of 2008 and a projected 11.5 GW by 2012, by building 3,600 miles of 345 kV electricity transmission lines between existing and new substations throughout the Panhandle, West, and East of Texas at a projected cost of \$4.95 billion (PUCT 2009). Refer Appendix B for a more detailed discussion on the planning behind CREZ expansion.

^{22.} There is also a cluster of wind farms in coastal Texas. This is because of superior wind quality in this region, which could be profitable for wind developers.

in the county), and total number of turbines in county i in year t as the dependent variables for this analysis. The variable $crez_i$ is a binary variable that specifies whether a substation for CREZ lines was sited in county i.

The analysis is restricted to annual county-level observations from 2012 through 2019 to estimate the wind capacity added beyond the projected period of CREZ planning. This excludes wind projects that were already in development or perhaps sited in CREZ counties just prior to the grid expansion announcement in late 2008. Because project planning and development typically takes a few years, this allows for the addition of wind capacity in response to transmission expansion.²³

I use a battery of control variables and fixed effects summarized by vector **X** in Equation (15). I use site specific wind turbine class, capacity factor, and cubic polynomial of average wind speed to flexibly control for a county's wind resource quality. These variables are aggregated at the county level from $2\text{km} \times 2\text{km}$ grid data from NREL's Wind Integration National Datatset (WIND) toolkit (Draxl et al. 2015). I use average yearly wind project cost data from Lawrence Berkeley's Wind Technologies Report, and land price data and median land acreage compiled by the Real Estate Center at Texas A&M University to control for project costs.

To control for demographic factors that could influence CREZ siting and wind investment, I use median household income in 2007 and average population from 2007 to 2010. I use average farm size in a county to account for variation in wind investment due to turbine dis-amenities.²⁴ This data comes from the USDA Census of Agriculture. Cities and counties often enact regulations for wind projects that are sited in their jurisdiction. These regulations, commonly known as setbacks or wind ordinances, specify limits on factors such as the size of wind turbines, height of turbines, noise, and maximum capacity. I include an indicator variable specifying whether the county (or a city in the county) has a wind ordinance.²⁵ To construct this variable, I use the data on wind ordinances from WINDExchange and collect data by hand for counties with missing information.

^{23.} Generator interconnection is one of the first steps in wind project development (AWEA 2019). The period between signing a generator interconnection agreement and commercial operation is about 2-3 years for a typical wind project in Texas.

^{24.} The rationale behind these variables is that urban areas tend to have higher opposition toward transmission and wind project siting (Andrade and Baldick 2016). Further, it is harder to site wind farms in areas with small farms (Winikoff and Parker 2019). Household income, population, and average farm size for other years is highly correlated with the 2007 variables that I use in the analysis. Therefore, including values of these variables for other years in the sample does not change the results.

^{25.} Most counties in Texas do not have wind ordinances for wind projects. Out of 254 counties, I find that cities in only five counties – Dallas, Ellis, Kleberg, Taylor, and Wichita – have enacted a wind ordinance for both smaller and bigger wind projects. The presence of a wind ordinance could affect investment in wind capacity in a county and could also be correlated with siting of transmission infrastructure.

To control for load zone-specific characteristics, I use zone fixed effects and a cubic polynomial for time trend to control for an increasing trend in wind generation across all counties. I use binary indicators for the years 2012 and 2013 to control for a sudden decline in wind installations due to the expiration of the Production Tax Credit (PTC) in late 2012 and its subsequent extension in early 2013. Standard errors are clustered by county to account for serial correlation at the county level.

	Dependent variable			
	Total Nameplate Capacity (MW)	Total Turbines	Avg. Capacity of a project (MW)	
	(1)	(2)	(3)	
CREZ	43.04*	23.36**	10.62	
	(22.60)	(11.82)	(10.04)	
Mean dependent variable	33.1	15.9	20.0	
Semi-elasticity (%)	130.0	146.9	53.1	
Controls	\checkmark	\checkmark	\checkmark	
Observations	2,024	2,024	2,024	
R ²	0.221	0.209	0.200	

Table 3: Effect of CREZ expansion on wind investment

Notes: This table reports the estimate from Equation 15. The sample is a balanced panel of 253 Texas counties. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include binary indicators for PTC expiration in 2013 and presence of a wind ordinance in a county in period *t*. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

Table 3 shows the OLS estimates for Equation (15). Results show that counties with CREZ substations and transmission lines saw higher levels of wind investment and turbines. One concern with using the full sample of counties is the lack of a common support over the set of covariates. The balance between treated and control units is crucial for the problem of causal inference (Rubin 2008). I address the issue of common support by implementing a matching strategy to obtain an unbiased estimate of the impact of CREZ expansion on wind investment.

5.1 Matching Strategy

The objective of the matching exercise is to construct a control group of counties that are comparable to the treated counties on a wide set of observable characteristics. Comparing the counterfactual outcomes from the control group, conditional on confounding factors, would provide the unbiased impact of transmission expansion. Making a causal claim requires the validity of the conditional independence assumption (CIA):

$$\mathbb{E}(\epsilon_{it}|\mathbf{X}, crez_i = 1) = \mathbb{E}(\epsilon_{it}|\mathbf{X}, crez_i = 0)$$
(16)

where ϵ_{it} is the unobserved component of the dependent variables of interest (y_{it}) . Under the assumption that the unobserved component (v_i) of a county that affects the treatment status is time-invariant, using county fixed effects would eliminate the selection bias. However, since the treatment variable is assigned at the county level and at the beginning of the sample, I cannot include county fixed effects. Instead, I assume that v_i can be approximated using some flexible function of observable county characteristics **Z**, i.e., $v_i = f(\mathbf{Z})$. Therefore, validating the CIA involves comparing counties with exactly the same combination of characteristics, such that $\mathbb{E}(\epsilon_{it}|f(\mathbf{Z}), \mathbf{X}, crez_i = 1) = \mathbb{E}(\epsilon_{it}|f(\mathbf{Z}), \mathbf{X}, crez_i = 0)$. However, the presence of continuous variables in **Z** and a finite sample make it impossible to compare counties based on an exact fit of f().

I use Coarsened Exact Matching (CEM), introduced by Iacus, King, and Porro (2012), to obtain the set of counties comparable on observable dimensions that include both continuous and discrete variables. I use a wide variety of pre-treatment observable covariates to account for factors that are correlated with both CREZ siting (treatment) as well as investment in wind energy after 2012. These factors include historical wind capacity, wind resource quality, land price and ruggedness, ERCOT load zones, and county-level demographic characteristics.

For wind resource quality, I use wind speed (m/s), capacity factor, and wind turbine class designation from NREL (Draxl et al. 2015). I use average land price over 2007-2010 and median land acreage to account for variation in project costs due to land prices across the counties. I also match counties by terrain ruggedness, which I define as the standard deviation of elevation within a county using $30m \times 30m$ elevation data from the National Elevation Dataset. To account for citizen bargaining and community opposition in siting wind projects and transmission lines, I use average farm size in 2007, median household income in 2007, and average population of a county over 2007-2010.²⁶ Finally,

^{26.} Another variable to account for opposition to wind energy and transmission could be an indicator for the presence of wind ordinance. However, very few counties in Texas have an ordinance for utility

I perform exact matching on ERCOT load zones to capture regional differences across load zones in the Texas electricity market. ²⁷

Table 4 shows the balance table of these observable characteristics for pre- and postmatched samples. As evident, CEM provides a well-balanced group of treated and control counties that look identical on all observable dimensions. Counties that do not lie in the common support of observable characteristics are discarded from the sample. Thus, the control group comprises 30 counties and the treated group comprises 13 counties.²⁸

For the regression analysis on the counties obtained by matching, I use the same set of control variables as described in Equation 15. The key identifying assumption is that, conditional on the vector of controls **X**, there are no unobservables that affect both the outcome variable and treatment status ($crez_i = 1$). Under this assumption, the coefficient estimate of ' $crez_i$ ' in Equation 15 using the matched sample is the unbiased effect of CREZ on wind investment in the long run.

scale wind. Therefore, I do not use this variable in matching but instead I include it in the set of controls in the regression analysis.

^{27.} Amongst the set of observable dimensions, historical wind capacity, wind speed, capacity factor, average land price over 2007-2010, median land acreage, average farm size in 2007, median household income in 2007, and average population over 2007-2010 are continuous, whereas site specific wind turbine class and zone are discrete variables. Each category within wind turbine class is matched exactly, whereas I use the following structure for exact matching on zone: {{Panhandle, West}, North, Coastal, Houston, South, None}.

^{28.} Figure F4 in Appendix shows the map of treated and control counties in the matched sample. Most of the control counties are adjacent to the treated counties.

Туре	Variables	Pre-Matching			Post-Matching		
		Means Treated [CREZ = 1]	Means Control [CREZ = 0]	p-val	Means Treated [CREZ = 1]	Means Control [CREZ = 0]	p-val
	Pre-CREZ wind capacity	158.599	5.579	0.000	5.581	4.264	0.138
	Wind Speed (m/s)	7.923	7.348	0.000	7.887	7.891	0.619
Wind Resource Quality	Capacity Factor	0.449	0.413	0.000	0.437	0.439	0.949
	Wind turbine class: I	0.000	0.005	_	0.000	0.000	_
	Wind turbine class: II	0.692	0.393	_	0.837	0.837	_
	Wind turbine class: III	0.308	0.603	—	0.163	0.163	_
Land price and ruggedness	Avg. Land Price (2007-2010)	284.684	424.427	0	228.424	231.216	0.929
	Median Land Acreage	560.184	779.632	0.032	360.746	351.736	0.161
	Terrain Ruggedness (m)	22.238	20.033	0.001	21.073	18.648	0.268
	Coastal	0.000	0.051	_	0.000	0.000	_
	Houston	0.000	0.028	_	0.000	0.000	_
EDCOT	None	0.000	0.107	_	0.000	0.000	_
ERCOI	North	0.308	0.220	_	0.163	0.163	_
Load Zones	Panhandle	0.179	0.136	_	0.302	0.371	_
	South	0.026	0.252	_	0.000	0.000	_
	West	0.487	0.206	_	0.535	0.466	_
Demographic characteristics	Avg. Farm Size (2007)	1,595.667	1,724.206	0.418	1,183.140	1,262.035	0.118
	Median Income (2007)	43,133.130	39,739.930	0	35,789.190	35,574.620	0.837
	Avg. Population (2007-2010)	171,282.000	83,280.770	0.002	28,917.870	20,612.030	0.026
Total Counties		39	214		13	30	

Table 4: Balance table of key observables for Pre- and Post-Matching Sample

Notes: This table presents balance test of key pre-treatment observable characteristics of a county. Pre-CREZ wind capacity is the total installed capacity (MW) in a county as of 2008. Terrain ruggedness is the standard deviation of elevation (metres) in a county. Each unit is a county-year observation. Wind turbine class is the indicator specifying the IEC class of wind turbine model most suited for the county. Pre-Matching sample includes all county-year observations. Post-Matching sample is selected using Coarsened Exact Matching (CEM). Exact matching is implemented on factor variables like wind turbine class and ERCOT load zones.

5.1.1 Results

Table 5 reports the coefficient estimate of $crez_i$ from Equation 15 with total nameplate capacity (MW), total turbines, and average project capacity (MW) in a county as the dependent variables, respectively. The results for total nameplate capacity indicate a significant increase in wind capacity in CREZ counties. Column (1) in Table 5 shows that transmission expansion led to approximately 74 MW higher wind capacity in treated counties. The semi-elasticity indicates a 205.4 percent increase in wind capacity for CREZ counties. In a similar vein, Column (2) shows that treated counties had about 40 more turbines on average than the control counties, with a 'semi-elasticity' of 249 percent. Both of these results are statistically significant at the 5 percent level.

	Dependent variable			
	Total Nameplate	Total Turbines	Average project	
	Capacity (MW)		size (MW)	
	(1)	(2)	(3)	
CREZ	73.73**	40.13***	29.33	
	(29.40)	(14.44)	(17.68)	
Mean dependent variable	35.9	16.1	26.9	
Semi-elasticity (%)	205.4	249.2	109.0	
Controls	\checkmark	\checkmark	\checkmark	
Group \times Trend FE	\checkmark	\checkmark	\checkmark	
Sample	Matched	Matched	Matched	
Observations	344	344	344	
R ²	0.467	0.476	0.425	

Table 5: Effect of CREZ expansion on wind investment - matching results

Notes: This table reports the estimate from Equation 15. The sample is a balanced panel of 13 treated (CREZ) and 30 control (non-CREZ) counties from 2012-2019 obtained using CEM. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include binary indicators for PTC expiration in 2013 and presence of a wind ordinance in a county in period *t*. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p< 0.1

Column (3) examines whether the size of a wind project varies differentially with county type. Everything else equal, we might expect wind developers to build bigger wind projects near sites that allow access to transmission capacity, and therefore a positive coefficient. The coefficient estimate lends weak evidence in favor of this hypothesis. I find that CREZ counties were associated with 29 MW larger wind projects; however, the coefficient estimate is not statistically significant.

To contextualize these estimates, I compute the value of carbon emissions avoided due to wind investment as a result CREZ expansion. I use an emissions rate of 0.601 tons of CO₂ avoided for each MWh of on-shore wind in Texas (EPA 2021). Assuming the capacity factor of wind in Texas is 34.57 percent, wind added due to CREZ avoided roughly 5.34 million tonnes of CO₂ emissions from the power sector in Texas. Using a social cost of carbon of \$185/ton-CO₂ (Rennert et al. 2022), the value of total reduction in carbon emissions is about \$988 million.²⁹

5.2 Threats to identification and robustness checks

5.2.1 Selection on unobservables - lobbying for or against CREZ

The key threat to identification in my empirical strategy is the selection of counties on unobservable characteristics. This would violate the Conditional Independence Assumption (CIA) and the estimates would lose their causal interpretation. While I cannot test CIA directly, I provide institutional evidence and variety of robustness checks to support its validity in this context.

The CREZ planning process involved discussions with various stakeholders, including wind developers, county officials, transmission service providers, and interested landowners. The final locations were selected based on their wind energy potential and to accommodate the existing stock of wind capacity (Lasher 2008, 2014). Several of the wind quality variables account for the wind energy potential of a county. Pre-CREZ wind capacity matches counties based on the existing stock of wind capacity, which was a key factor in selection of CREZ counties.

One of the unobservable factors is whether certain counties lobbied for or against siting of the CREZ lines. While opposition is likely not a major concern in West Texas

^{29.} The total value of damages prevented from emissions is much larger if we include local pollutants. However, accurately calculating this requires computing the amount of SO_2 and NOx offsets due to additional wind across space. To get a crude measure of avoided SO_2 and NOx, I use emissions rate of 0.63 lb/MWh for SO_2 and 0.46 lb/MWh for NOx (EPA 2021). Using aggregate damage valuations of local emissions from (Holland et al. 2020), I find that this wind capacity led to an annual reduction of approximately \$110.8 million worth of SO_2 and \$28.32 million worth of NOx in Texas.

due to low land costs and minimal community opposition, it is certainly a concern for East and South Texas, where some of the lines were closer to urban areas (Andrade and Baldick 2016). In contrast, certain counties in the Panhandle region expressed interest to the PUCT for CREZ investment. This was in part due to an already declining population and economic loss in these counties in the years preceding CREZ expansion (Cohn and Jankovska 2020).

I construct a set of 'opposing' and 'enthusiastic' counties by reviewing individual cases filed by counties to Public Utilities Commission of Texas (PUCT) and information from Cohn and Jankovska (2020).³⁰ These filings led to hearings and negotiations between county officials and PUCT regarding CREZ locations. I run the matching algorithm by excluding these two sets of counties separately from the original sample. The regression results for the new matched samples are reported in Appendix G.1 and are qualitatively similar to the baseline estimates in Table 5. I also conduct a series of robustness checks in Appendix G.3 to explore how the coefficient estimates change when excluding some control variables, group fixed effects, and matching weights. The results are similar to the estimates in Table 5.

5.2.2 SUTVA violations due investment spillover to neighboring control counties:

Figure F4 shows that several control counties selected by matching are adjacent to the treated counties. This could potentially lead to violation of the Stable Unit Treatment Value Assumption (SUTVA), as some of these control counties could have seen higher or lower levels of wind investment due to treatment assignment.³¹

I address this concern by estimating the baseline specification in Equation 15 along with an indicator for control counties that are adjacent to CREZ. Coefficient estimate on the indicator for adjacent control counties in Table G4 in Appendix G.2 shows that while there was a small positive spillover effect, it is statistically indistinguishable from zero. In other words adjacent control counties did not receive higher or lower wind investment than other control units. Further, because the share of wind added due to CREZ expansion is relatively smaller than the overall energy mix including the increasing trend of wind capacity in Texas, any competitive effects on control counties are likely to be small.

^{30.} The 'opposing' counties are: Kendall, Gillespie, Newton, Kimble, Kerr, Mason, and Schleicher. The 'enthusiastic' counties are: Dallam, Sherman, Oldham, Swisher, Lipscomb, Parmer, Lamar, Hall, and Deaf Smith.

^{31.} A control unit located adjacent to a CREZ county could be more competitive in receiving higher wind investment than non-adjacent control county. However, such control counties could also see lower investments if developers instead invest more in CREZ counties and less in non-CREZ counties. Therefore, CREZ would have simply lead to a realignment of investments instead of overall greater investments. Both these cases would be instances of SUTVA violations.
5.2.3 Placebo test using cancelled CREZ counties as treatment group:

Finally, I conduct a placebo test using counties that were initially announced to site grid infrastructure, but the siting was later canceled prior to the development stage.³² I use these counties as the treatment group instead of the original treatment group. Comparing these counties with the control units acts as a placebo test because in the long-run, both these groups should exhibit similar levels of wind investment. Coefficient estimates in Table G9 in Appendix confirm this hypothesis: the difference in wind investment between 'placebo treatment group' and the control counties is statistically insignificant. This provides support to the evidence that empirical strategy estimates long run wind investment as a result of grid infrastructure added due to CREZ expansion.

5.2.4 Competitiveness due to effect of CREZ on output and input prices for wind power:

Price spillovers, from the input and the output side, as a result of CREZ expansion could also lead to lower investment in control counties. Such spillovers could make control counties less competitive for wind investment than treated counties. From the output side (i.e. prices for electricity from these projects), since the Renewable Portfolio Standard requirement for Texas was non-binding throughout the sample period, the output price spillover is likely to be small. Moreover, because the turbines for wind projects are purchased on a global market, grid expansion in Texas is unlikely to impact input prices (i.e. prices of wind turbines) deferentially across counties.

5.2.5 Anticipation of CREZ announcement:

A potential source of bias in measuring the causal impact could be the anticipation amongst wind developers of the CREZ announcement in 2008. This would be reflected as a spike in investment in wind projects within CREZ counties in the years leading up to the transmission expansion announcement. Using the data on generator interconnection in Texas, I examine the existence of such an anticipation effect in Appendix D. The analysis does not show the existence of any anticipation of the announcement of grid expansion two and four years prior to the announcement date.

^{32.} These counties are: Gillespie, Lampasas, Mills, Brown, Eastland, Briscoe, Taylor.

5.2.6 Selection into treatment due to multi-phase wind projects and extensions:

Another threat to identification could exist if projects within CREZ counties prior to 2008 saw subsequent extensions shortly after 2012. This would be a selection issue if a site was selected for CREZ expansion because of the likely development of a project extension within the same county in the near future. To address this concern, I examine the occurrence of post-2012 extensions of wind projects that started operating before 2008 within CREZ counties. Figure F5 in the Appendix shows that the existence of multi-phase wind projects and project extensions are not a cause of concern.

5.2.7 Long-difference specification:

An alternative specification to estimate wind investment in response to CREZ over time is a long-difference specification of the following form:

$$y_{iT} - y_{i0} = \beta^{LD} \cdot crez_i + \gamma \cdot (\mathbf{X}_{iT} - \mathbf{X}_{i0}) + \delta \cdot \mathbf{Z} + (\epsilon_{iT} - \epsilon_{i0})$$
⁽¹⁷⁾

where $y_{iT} - y_{i,0}$ is the difference in outcomes between 2019 and 2012, $(\mathbf{X}_{iT} - \mathbf{X}_{i0})$ is the difference in time varying controls, and **Z** are county specific resource variables (wind speed, capacity factor, terrain ruggedness) and fixed effects. The variable of interest is *crez_i*, the indicator specifying if county was selected for CREZ expansion. Given this specification, β^{LD} measures the increase in wind investment in CREZ counties between 2012 and 2019. Appendix G.4 shows that the estimates from the long-difference specification are quantitatively similar to the baseline estimates in Table 5. However, these estimates are not statistically significant.

6 Conclusion

A critical factor in fully utilizing the benefits of renewable energy is the availability of electricity transmission lines. Using the CREZ transmission expansion in Texas as a case study, this paper studies the short- and long-run impacts of large-scale grid expansion. I examine the effect of grid expansion on markups and emissions associated with marginal fossil fuel generators in the short run and transition to wind in the long run.

The short-run analysis shows that CREZ expansion led to lower market power and emissions from marginal fossil fuel producers. The decline in market power and emissions led to \$350 million worth of annual benefits. These short-run effects are complementary to several other benefits estimated in the literature. These include gains from

the trade of low-cost electricity (LaRiviere and Lyu 2022), lower emission due to decline in transmission congestion (Fell, Kaffine, and Novan 2021), and enhanced grid reliability, to name a few. In the long run, counties with CREZ transmission substations saw significant investment in wind capacity (+202%), which prevented approximately \$988 million worth of annual carbon emissions in Texas in 2020. While CREZ reduced wind curtailment in the short run by integrating wind into the grid, growing wind investment near CREZ counties has led to a steady rise in wind curtailment, indicating inadequate transmission capacity.³³

While the cost of CREZ expansion was \$6.8 billion incurred over three years, the benefits, as shown in this paper, are spread over a much longer time horizon. Assuming the estimated benefits to be static indicates payback period of 7.6 years. Moreover, this payback period is conservative since I only consider a specific set of benefits, and some of these are likely to be dynamic.³⁴

Even though CREZ expansion was funded through the Transmission Cost Recovery Factor, a component in the retail rate of electricity paid by consumers (Fink et al. 2011; Dorsey-Palmateer 2020), there are both public and private benefits of this investment. On the public front, this includes lower grid congestion and decline in market power, amongst others. This translates to efficient dispatch of electricity, lower wholesale and retail prices of electricity, and therefore welfare gains in the medium to long-run. From the private side, this includes greater investments in renewable energy. As I show, these investments in turn provide substantial public benefits due to lower emissions.

Because transmission expansions are costly public undertakings that take several years of planning and execution, quantifying the short- and long-run effects is crucial to accurately assess the economic value of these investments. Several of such investments are being considered in different parts of the US like the Midwest and the Southwest (Puppel 2021; Kite 2022). The findings from this paper can provide insights about the effects of transmission expansion in these regions. Alternatively, these results also highlight the forgone benefits and environmental costs from delays in grid expansion.

^{33.} Appendix E provides a discussion of wind curtailment in Texas. I show descriptive evidence of rising curtailments in wind farms near CREZ counties post 2017 as a result of localized long-run investment in wind. This can have several market impacts, such as higher market power due to grid congestion, which could erode some of the estimated short-run benefits.

^{34.} The value of benefits from lower emissions is dependent on the social cost of carbon. I use the most recent Social Cost of Carbon (SCC) estimate of \$185/ton-CO₂ (Rennert et al. 2022). Further, this calculation assumes short-term benefits, about \$350 million per year to remain fixed and accrue from 2015. Long term benefits, about \$988 million per year are also assumed to be static, but start accruing since 2020. The assumption of long-term benefits as static is a limiting one due to the empirical strategy. It is also conservative, in the sense that wind investment in treated counties likely grew since 2020. However, ignoring the long-term benefits from this calculation would lead to much longer payback periods.

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Appendix

A Data Sources and Sample Construction

A.1 Data and sample for markup analysis

In this section, I describe the sample construction for the short-run analysis. The hourly generator level sample used in the short-run analysis on the effect of CREZ expansion on markups uses data from three sources - ERCOT Report 13029, EIA Form 860, and EPA's CEMS Data. A brief description of these data sources is as follows:

- **ERCOT Report 13029** This report includes the offer price and the name of the entity submitting the offer for the highest-priced offer selected or dispatched by the Security Constrained Economic Dispatch (SCED) two days after the applicable operating day. It identifies all the entities that submitted the highest-priced offers selected for each SCED run (in case of multiple entities). SCED is the market clearing process in ERCOT and occurs at every 15 minutes. Therefore, this data is at 15 minute intervals for August 2011 to December 2014. I aggregate this data at the hourly level and all the generators that appear in this data in a specific hour are regarded as marginal generators for that hour. Apart from the identity of the generation resource, this dataset also includes the Locational Marginal Price (LMP) resolved at the resource node for that generator. This acts as the wholesale price corresponding to the marginal generator.
- **EIA Form 860** This is an annual dataset of all the power plants and generators operating in the US. This data contains information like EIA code of the power plant and generator(s), plant name, location, generator technology, prime mover, main energy source, regulatory status of the power plant, nameplate capacity, operating month and year, planned retirement year, operating status etc.
- **CEMS Data** This is an hourly level data of all the fossil fuel generators at least 25 MW in size. It contains information on hourly emissions (CO₂, NOx, and SO₂), hourly generation, and heat input. The generators are identified using ORISPL Code.

For my sample period, ERCOT Report 13029 contains about 300 fossil fuel generators that operate at the margin at some instance. Since I do not observe the EIA Plant Code or Generator ID in ERCOT Report 13029, I manually match each of the 300 fossil fuel

generators to the corresponding generators in the EIA Form 860. I am able to successfully match most of the generators in the ERCOT data to EIA Data.

The next part of sample construction is to match the generator data in EIA to hourly generator data in CEMS. The generator identifiers in CEMS are the ORISPL Code and Unit ID. ORISPL Code corresponds directly to the EIA Plant Code for most cases. I verify and correct ORISPL Codes in case of any discrepancy. Similarly, Unit ID in CEMS data corresponds directly to generator id in EIA Form 860. However, I verify and correct all the cases where there is any discrepancy.

A.2 CREZ Transmission Expansion Data

I use Transmission Project Information Tracking (TPIT) Reports obtained from ERCOT to assemble the dataset on CREZ transmission expansion. These reports contain detailed information on various electricity transmission projects in Texas. I specifically focus on new transmission lines built as a part of CREZ project. These reports provide the length of each transmission line (in miles) along with their in-service dates. I also see the counties where the terminals of each specific line lies. These terminals are usually existing or new electrical substations. The data on the exact location of these substations is restricted since it is considered a matter of national security, thus, I only see the county where these substations are located.

Following counties are classified as 'CREZ' counties in my data: Archer, Bell, Borden, Briscoe, Brown, Carson, Castro, Childress, Coke, Collin, Cottle, Dallas, Deaf Smith, Denton, Dickens, Ector, Glasscock, Gray, Haskell, Hill, Jack, Kendall, Lampasas, Martin, Mitchell, Navarro, Nolan, Parker, Pecos, Schleicher, Scurry, Shackelford, Sterling, Tarrant, Taylor, Tom Green, Upton, Wilbarger, Wise.

B Institutional Details

B.1 Real-time electricity market

Real-time market operations mainly refers to the operating hour and the hour immediately preceding the operating hour. ERCOT collects the status of all the transmission infrastructure from Transmission Service Providers and identifies transmission constraints and forecasts demand at various points of the network for the operating hour. This information is made available to the supply side of the market that comprises of the generating firms.

To participate in the market, each firm submits offer curves for all the generators that it owns. These offer curves are monotonically increasing vectors of price-quantity pairs based on the demand and grid information provided by ERCOT. Firms enjoy great flexibility to specify and alter their offer curves which can be different for different hours of the day. They can input up to ten price-quantity pairs and alter their offer curve up to the hour preceding the operating hour. This allows a firm to update its strategy when more information on various factors like demand, transmission constraints, or strategies of competitors is available.

The demand side of the market is comprised of retailers and load serving entities who submit demand for energy at various locations in the operating hour. Equipped with the information on supply, demand, and transmission constraints, ERCOT deploys a market clearing process that occurs every 5 minutes. This process identifies least cost generating resources that would meet the electricity demand at various locations in the system while respecting transmission constraints and the capacity limits of the generating resources. Apart from matching supply to demand, a major task of this process is to prevent the system from exceeding operational limits thus maintaining the reliability of the network. This market clearing process generates market clearing prices called Locational Marginal Price which is the location specific wholesale price of electricity.

B.2 Details of CREZ Expansion Planning

The process of identifying the locations and cost of CREZ began following the enactment of the Texas Senate Bill 20 in 2005. In April 2008, ERCOT submitted a transmission optimization study that delineated four scenarios of transmission expansion (ERCOT 2008). These scenarios were expected to integrate the existing wind capacity of 6.9 GW by the end of 2008 and varying levels of projected wind capacities to be added until 2012. These scenarios differed widely in total cost and amount of wind the resulting transmission infrastructure could accommodate by 2012. Scenario 1A was expected to cost \$2.95 billion and accommodated 5.15 GW of additional wind; Scenario 1B, was deemed more scaleable with a cost of \$3.78; Scenario 2 was projected to cost \$4.95 billion and accommodate 11.5 GW; Scenario 3 would accommodate 17.9 GW at a cost of \$6.38 billion; and Scenario 4 would accommodate 17.5 GW wind with a total cost of \$5.75 billion. These scenarios were evaluated based on three main objectives in ERCOT's transmission optimization study:

- 1. All of these scenarios would integrate existing wind capacity of 6.9 GW in West Texas.
- 2. The overall wind curtailment due to transmission congestion would be no more than 2 percent (curtailment as a share of total wind generation). For each scenario, curtailments on existing and planned wind facilities upto 2012 were considered.
- 3. ERCOT adopted an incremental approach to transmission planning that would essentially "overlay" the new CREZ lines on the existing grid in West Texas. In other words, the new system would not even be indirectly connected to the existing grid in West Texas. This was done in order to prevent widespread congestion and overloads in the existing low voltage system due to additional wind generation in the West and Panhandle region.

B.3 Transmission congestion and market power

How does presence of transmission constraints translate to generating firms exercising market power? Generators submit monotonically increasing offer curves which is a function of price and quantity of electricity they are willing to supply. Generators anticipate demand and transmission constraints and hence submit a bid that is composed of the marginal cost of supplying electricity and a markup term.³⁵

Following example illustrates how inadequate transmission can prevent ERCOT from dispatching the cost effective generating units and incentivize them to exercise market power. Consider two regions- A and B. Region A consists of low cost generators that can provide up to 100 MW of electricity and region B consists of high cost generators that can also provide 100 MW of electricity. However, Region A and B are connected by a transmission line that can carry only 50 MW of electricity. Suppose at some time

^{35.} In ERCOT, generators have access to demand forecasts and the information on transmission infrastructure. They use this publicly available information and any private information about the market to determine their offer curves.

t there is a demand for 80 MW of electricity in region B by households. ERCOT as the planner, would like to dispatch all of the 80 MW from low cost generators in Region A. However, due to the transmission limit it can only dispatch 50 MW. At this point, the transmission constraint between A and B is said to be binding or there is transmission congestion between A and B. To meet the remaining demand, ERCOT has to dispatch 30 MW of electricity from high cost generators located in region B. Thus, presence of transmission constraints leads to dispatch of higher cost generators when the demand could have been met by low cost generators. Since electricity demand is fairly inelastic in the short-run, high cost generators could exercise market power by charging a price for electricity in reality is more complicated since the flow of current follows Kirchhoff's Laws. This example abstracts from such real life aspects in order to illustrate the impact of transmission constrains on generator dispatch.

C Conceptual model of wind project location choice

This section presents a simple conceptual model to build intuition on a wind developer's location choice for its wind project. Wind developer *i* choose location *j* to site their wind projects in order to maximize present value of annual profits written as:

$$\pi_{ij} = p_i \mathbb{E}(Q_j) - F_{ij} - OM_{ij} \tag{18}$$

where, p_i is the per MWh price that the wind farm receives, $\mathbb{E}(Q_j)$ is the expected electricity production from the wind farm which is a function of wind resource quality and the number and types of turbines. F_{ij} are the fixed costs and OM_{ij} are the operations and maintenance costs associated with the project.

The location choice is dependent on availability and access to transmission lines K at site *j*. Access to transmission lines is necessary for the wind farm to be able to deliver its electricity to the grid. Therefore, for two locations with similar wind quality, profits would be higher at the location with better access and availability of transmission lines,

$$\therefore \mathbf{K}_j > \mathbf{K}_{j'} \implies \pi_{ij}(\mathbf{K}_j) > \pi_{ij'}(\mathbf{K}_{j'}) \tag{19}$$

Next, the developer considers how far to locate from the electrical substation corresponding to the grid. ³⁶ To see this, consider the profit function in Equation 18:

$$\pi_{ij} = p_i \mathbb{E}(Q_j) - \underbrace{[C_i + \kappa_j \cdot l]}_{\text{fixed costs}} - OM_{ij}$$
(20)

The fixed costs is a combination of two main components. The first is C_i , fixed costs incurred in building the wind project (like purchasing wind turbines), and second is the cost of constructing a spur transmission line, denoted by $\kappa_j \cdot l$. Spur transmission line is a relatively short transmission line that connects the generator to the bulk transmission grid (Andrade and Baldick 2016). The cost of building spur lines is borne by the developer of the project. The schematic in Figure C1 illustrates the cost allocation of spur lines and bulk transmission lines between developer and end use consumers of electricity in Texas.

The length of a spur line in Equation 20 is denoted by l (> 0) and κ_j is a positive cost multiplier which summarizes the costs associated with building a unit length of

^{36.} Electrical (step-up) substations increase the voltage of electricity generated by power plants in order to make it efficient for transmission using long distance transmission lines. Therefore, these substations typically serve as the point of injection of electricity from the power plants into the grid.



Figure C1: Illustration of transmission cost allocation in Texas for a new generation project. Source: Andrade and Baldick (2016)

spur line (of a specific voltage) at location *j*. These costs are mainly due to land prices, terrine features, and generation technology (example wind, coal, natural gas). Partially differentiating π_{ij} with respect to length *l* shows that profits are decreasing in spur line length, i.e.

$$\frac{\partial \pi_{ij}}{\partial l} = -\kappa_j < 0 \tag{21}$$

therefore, wind developers have an incentive to locate near the substation associated with the bulk transmission grid in order to maximize profits (or minimize costs). The simplified model shows that wind developers site their project in a region with access and availability to the grid, and then tend to locate near the grid substations to minimize the costs of building the spur transmission line.

D Anticipation Effects

In this section, I examine whether there was an anticipation amongst wind developers to invest in wind projects in the period leading up to the announcement of CREZ transmission expansion in late 2008. Existence of such an anticipation could lead to biased estimates of the impact on CREZ announcement on wind investment in Section 5.1. The direction of the bias is expected to be downwards since the coefficient estimate would not capture the wind investment in periods before the announcement.

To examine the anticipation effects, I use information on generator interconnection as a measure of changes in wind project planning in ERCOT since the latter is usually unobserved or hard to measure. Wind developers usually sign the interconnection agreement if they expect to build a project at a particular site and this is usually one of the first steps in the process of building a wind project (AWEA 2019).I use interconnection data from EIA Form 860 for the years 2004 - 2012 and Generator Interconnection Status (GIS) Reports from ERCOT for the years 2013 - 2019 to get the date when a wind project signed the interconnection agreement. I match these data with the wind project data from EIA 860 and AWEA to get information on project level characteristics. The matched dataset comprises of 147 projects that signed the interconnection agreement between 2004 and 2018. In terms of successful matches, this represents about 87 percent of the existing wind projects in Texas between 2004-2018.

I run several regressions to test the existence of an anticipation effect after controlling for confounding factors that could influence generator interconnection. Specifically, I estimate versions of the following specification:

$$y_{it} = \alpha_i + \beta \cdot \mathbb{1}\{year \in [k, \ 2008]\} + \mathbf{X}'\Pi + \epsilon_{it}$$
(22)

where, y_{it} is the inverse hyperbolic sines (IHS) of number of projects or the total nameplate capacity of projects that signed the interconnection agreement in county *i* in year *t*. The independent variable of interest $1{year \in [k, 2008]}$ is an indicator for the range of years from *k* to 2008, denoting the anticipation period. I consider two versions of this variable - k = 2006, i.e. $1{year \in [2006, 2008]}$ and k = 2004, i.e. $1{year \in [2004, 2008]}$ as the anticipation period. I estimate Equation 22 separately for CREZ and non-CREZ counties.

I use a rich set of covariates to control for confounding factors. I use county fixed effects denoted by α_i and a vector of county and demographic controls summarized by **X**. This includes a linear time trend, cubic polynomial of county specific wind speed, capacity factor of wind generation, median land acerage, real price of land, indicator

for whether the county has a wind ordinance, average farm size (acres) in 2007, median household income, and log of population. To account for correlation in interconnection queue across counties, I cluster the error ϵ_{it} at the county level.

Table D1 reports the results of OLS regression of Equation 22 with [2006, 2008] as the anticipation period. Column (5) is the baseline specification for the sample using CREZ counties and Column (6) is the baseline specification for the sample using non-CREZ counties. Panel A shows the results for IHS of the number of projects in interconnection as the dependent variable. The coefficient estimates suggest that anticipation effect for both CREZ and non-CREZ counties is positive but statistically and economically insignificant. Restricting the sample to counties obtained using matching (Panel A.2) in the long-run analysis does not change the results by much with the exception of the estimate for non-CREZ counties. I find a weak positive effect with an elasticity of 8 percent, however the coefficient is only significant at 10 percent critical level.

Panel B shows the results for IHS of the total capacity of projects in interconnection as the dependent variable. I find a positive anticipation effect for CREZ counties but it is not statistically significant in the baseline specification. Interestingly, the coefficient estimate for non-CREZ counties is negative but the magnitude is economically and statistically insignificant. Restricting to the counties in matching sample (Panel B.2) flips the pattern with CREZ counties showing a negative anticipation effect and non-CREZ counties showing a positive anticipation effect. However, none of these effects are statistically indistinguishable from zero.

Table D2 reports the results of OLS regression of Equation 22 with [2004, 2008] as the anticipation period. Column (5) and Column (6) are the baseline specifications for the samples using CREZ counties and non-CREZ counties respectively. Similar to Table D1, the coefficient estimates do not reveal any evidence of anticipation effects during the years 2004 to 2008 for both CREZ and non-CREZ counties. Therefore, based on the results from this analysis I rule out the possibility of an anticipation effect in the form of an increase in the number and capacity of wind projects in the ERCOT interconnection queue in the years leading upto CREZ announcement in late 2008.

	(1)	(2)	(3)	(4)	(5)	(6)	
	A. De	A. Dependent variable: IHS of # projects in interconnection queue)					
			A.1 All cou	nties in Texas			
Year ∈ [2006, 2008]	0.102*	0.002	0.102*	0.002	0.066	0.002	
	(0.054)	(0.008)	(0.055)	(0.009)	(0.059)	(0.010)	
Elasticity	0.107	0.002	0.107	0.002	0.068	0.002	
R ²	0.016	0.000	0.137	0.116	0.145	0.117	
		A.2 Restricti	ng to counti	es in the matcl	ning sample		
Year ∈ [2006, 2008]	0.004	0.065	0.004	0.065	0.004	0.077^{*}	
	(0.054)	(0.044)	(0.055)	(0.045)	(0.056)	(0.044)	
Elasticity	0.004	0.067	0.004	0.067	0.004	0.080	
R ²	0.000	0.017	0.064	0.081	0.085	0.092	
	B. Depende	ent variable: IH	IS of total ca	pacity (MW) i	n interconne	ction queue)	
			B.1 All cou	nties in Texas			
Year ∈ [2006, 2008]	0.454^{*}	-0.021	0.454^{*}	-0.021	0.304	-0.002	
	(0.242)	(0.035)	(0.250)	(0.037)	(0.287)	(0.043)	
Elasticity	0.575	-0.020	0.575	-0.02	0.356	-0.002	
R ²	0.012	0.0001	0.137	0.123	0.145	0.124	
		B.2 Restriction	ng to counti	es in the match	ning sample		
Year ∈ [2006, 2008]	-0.018	0.158	-0.018	0.158	-0.013	0.244	
	(0.264)	(0.151)	(0.273)	(0.156)	(0.281)	(0.154)	
Elasticity	-0.018	0.172	-0.018	0.172	-0.013	0.276	
R ²	0.000	0.004	0.072	0.063	0.097	0.079	
County FE			\checkmark	\checkmark	\checkmark	\checkmark	
Time Trend					\checkmark	\checkmark	
Wind Controls					\checkmark	\checkmark	
County Controls					\checkmark	\checkmark	
Sample	CREZ	non-CREZ	CREZ	non-CREZ	CREZ	non-CREZ	

Table D1: Anticipation of CREZ announcement for the years 2006 to 2008

Notes: This table reports the results of regressions analyzing the anticipation effect of CREZ announcement for the years 2006 to 2008. Sample specifies whether the estimation sample is CREZ counties or non-CREZ counties. Panels A.1 and B.1 use all the counties in the data. Total observations in 'CREZ' and 'non-CREZ' Sample in A.1 and B.1 is 585 and 3,225 respectively. Panels A.2 and B.2 restrict the observations to the counties obtained in the matching sample. Total observations in 'CREZ' and 'non-CREZ' Sample in A.2 and B.2 restrict the observations to the counties obtained in the matching sample. Total observations in 'CREZ' and 'non-CREZ' Sample in A.2 and B.2 is 195 and 450 respectively. The independent variable is an indicator variable for the years in 2006 to 2008. Time Trend is a linear time trend variable. Wind Controls include capacity factor and cubic polynomial of wind speed. County Controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include median land acreage, real land price, indicator for the presence of wind ordinance, average farm size (acres) in 2007, median household income in 2007, and log of population. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

	(1)	(2)	(3)	(4)	(5)	(6)	
	A. De	A. Dependent variable: IHS of # projects in interconnection queue					
			A.1 All cou	nties in Texas			
Year ∈ [2004, 2008]	0.090*	-0.003	0.090*	-0.003	0.090	-0.003	
	(0.046)	(0.006)	(0.048)	(0.006)	(0.065)	(0.009)	
Elasticity	0.094	-0.003	0.094	-0.003	0.095	-0.003	
R ²	0.017	0.0001	0.138	0.116	0.147	0.117	
		A.2 Restricti	ng to counti	es in the matcl	ning sample		
Year ∈ [2004, 2008]	-0.031	0.026	-0.031	0.026	-0.043	0.063	
	(0.043)	(0.028)	(0.044)	(0.029)	(0.087)	(0.039)	
Elasticity	-0.031	0.026	-0.031	0.026	-0.042	0.065	
R ²	0.003	0.004	0.067	0.068	0.087	0.083	
	B. Depend	ent variable: II	HS of total ca	apacity (MW) i	in interconne	ection queue	
			B.1 All cour	nties in Texas			
Year ∈ [2004, 2008]	0.394*	-0.044^{*}	0.394*	-0.044	0.443	-0.016	
	(0.215)	(0.027)	(0.222)	(0.027)	(0.319)	(0.040)	
Elasticity	0.482	-0.043	0.482	-0.043	0.557	-0.016	
R ²	0.013	0.001	0.137	0.124	0.147	0.125	
		B.2 Restricti	ng to counti	es in the match	ning sample		
Year ∈ [2004, 2008]	-0.194	0.006	-0.194	0.006	-0.264	0.205	
	(0.221)	(0.106)	(0.229)	(0.109)	(0.435)	(0.153)	
Elasticity	-0.176	0.006	-0.176	0.006	-0.232	0.227	
R ²	0.005	0.000	0.077	0.059	0.100	0.075	
County FE			\checkmark	\checkmark	\checkmark	\checkmark	
Time Trend					\checkmark	\checkmark	
Wind Controls					\checkmark	\checkmark	
County Controls					\checkmark	\checkmark	
Sample	CREZ	non-CREZ	CREZ	non-CREZ	CREZ	non-CREZ	

Table D2: Anticipation of CREZ announcement for the years 2004 to 2008

Notes: This table reports the results of regressions analyzing the anticipation effect of CREZ announcement for the years 2004 to 2008. Sample specifies whether the estimation sample is CREZ counties or non-CREZ counties. Panels A.1 and B.1 use all the counties in the data. Total observations in 'CREZ' and 'non-CREZ' Sample in A.1 and B.1 is 585 and 3,225 respectively. Panels A.2 and B.2 restrict the observations to the counties obtained in the matching sample. Total observations in 'CREZ' and 'non-CREZ' Sample in A.2 and B.2 restrict the observations to the counties obtained in the matching sample. Total observations in 'CREZ' and 'non-CREZ' Sample in A.2 and B.2 is 195 and 450 respectively. Time Trend is a linear time trend variable. Wind Controls include capacity factor and cubic polynomial of wind speed. County Controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include median land acreage, real land price, indicator for the presence of wind ordinance, average farm size (acres) in 2007, median household income in 2007, and log of population. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

E Implications of long-run investment in wind on curtailment

Electricity market operators typically curtail renewable resources during periods of congestion to maintain grid stability.³⁷ In Texas, the lack of adequate transmission capacity to transport electricity from wind farms in the West has been the primary source of wind curtailment, reaching about 17 percent of total wind generation in 2009 (Bird, Cochran, and Wang 2014). Section 3.3 shows that, with generation capacity fixed in the short run, the availability of transmission capacity led to the integration of wind that would have been curtailed.

Figure E1a shows that CREZ expansion led to a significant decline in wind curtailments post-2014, but a steady rise since 2016. Further, Figure E1b shows that average hourly curtailments in 2019 were higher than pre-grid expansion levels in 2011 and 2012. In the long-run analysis (Section 5), locations that received investment in CREZ infrastructure saw higher levels of wind investments in the long run. Even though wind capacity in Texas has been increasing, there have not been any significant grid expansion projects post-CREZ.

The rise in curtailment could be an outcome of localized investment in wind in the West and inadequate transmission capacity. I provide descriptive evidence by comparing curtailment in wind farms near CREZ counties to those farther away. I estimate the following two-way fixed effects specification at the quarterly level:

$$y_{it} = \sum_{\substack{k=Q2/2011\\(\neq Q4/2013)}}^{Q4/2019} \gamma_k \cdot \mathbb{1}\{\text{in/adjacent to CREZ}\} + \alpha_i + \delta_{qy} + \epsilon_{it}$$
(23)

where y_i is the curtailment in wind farm *i* in hour t.³⁸ The parameter of interest γ_k measures the percentage difference in curtailment in wind farms within or adjacent to CREZ counties, compared to those located elsewhere, for each quarter in 2011 to 2019, with the fourth quarter of 2013 as the reference. I include wind farm (α_i) and quarter of

^{37.} As noted above, wind curtailment is the reduction in electricity generated from a wind generator below the level it could have produced given available resources (Bird, Cochran, and Wang 2014). For example, suppose a wind generator is estimated to produce 100 MW of electricity in a period *t* but is finally scheduled to produce 80 MW. In that case, the corresponding wind curtailment is 20 MW. Curtailment typically is involuntary on the part of the generator. ERCOT determines the extent of curtailments based on transmission limits.

^{38.} I use inverse hyperbolic sine (IHS) transformation of the dependent variable to account for the significant mass of zeros in the dependent variable.



Figure E1: Wind curtailment in Texas from 2011 to 2019





(b) Average hourly wind curtailment

Note: Figure E1b shows average hourly wind curtailments for each hour from 2011 to 2019. For clarity, solid lines highlight the curtailment pattern pre-CREZ expansion (2012), post-CREZ expansion (2014), and for the most recent year (2019) in the sample.

the year (δ_{qy}) fixed effects. I estimate Equation 23 separately for off-peak [22:00 - 7:00) and on-peak [7:00 - 22:00) hours.

Figure E2 shows the estimates of γ_k from Equation 23. Curtailment was significantly higher in wind farms near CREZ counties in the years leading up to transmission expansion in 2014, especially in off-peak hours. For instance, in 2012, curtailment in wind farms in these regions reached about 1.5 times that of wind farms elsewhere. We notice a decline in curtailments after transmission expansion in 2014.





Note: This figure shows the estimates of γ_k from Equation 23. Each coefficient estimate shows the percentage change in curtailment between wind farms near CREZ counties to those in other regions for off-peak and on-peak hours over 2011 to 2019. Triangles highlight the coefficient estimates corresponding to the windier spring quarter (April - June) in Texas.

However, since 2017, wind farms near CREZ counties have seen a steady rise in curtailments, upward of 25 percent in the off-peak hours. This effect is both economically and statistically significant. Rising wind investment but inadequate transmission capacity could erode some of the short-run benefits from CREZ expansion. For instance, grid congestion during periods of high demand can incentivize fossil fuel firms to set higher markups. Similarly, inability to transport low-cost electricity from wind during high wind generation could lead to negative wholesale prices in the wind-rich West, thereby reducing the value of renewable investment in these regions.

F Supplementary Figures

Figure F1: Hourly averages of actual wind generation (w_t) and maximum predicted wind generation (max_t) from 2011 - 2014



--- Actual wind generation --- Max. predicted wind generation

Notes: max_t is the maximum energy production capability of the generator at period t. It is established by the generator itself and is continuously updated in real time.

Figure F2: Short-run impact of wind generation on local pollutants (SO₂ and NOx) by generator type



(a) Impact of wind generation on local pollutants (SO₂ and NOx) from coal generators



(b) Impact of wind generation on local pollutants (SO₂ and NOx) from natural gas generators

Figure F3: Hourly averages of the marginal damages (2020) avoided due to CREZ expansion for each zone over 2011 - 2014.



(a) Damages due to global pollution (CO₂)









Notes: Total number of control counties are 30, total number of treated counties are 13. Unshaded counties are discarded from the sample used in the regression analysis because they lie outside of the common support of observable characteristics.



Figure F5: Wind projects with multiple phases and extensions

Operating Year Note: This figure presents projects with multiple phases or extensions within CREZ counties. Each dot represents at least one phase. Projects with single dots (Loraine Windpark, Notrees Windpower, Pattern Panhandle, Scurry County, and Woodward Mountain) have multiple phases completed in the same year. There are 37 individual projects within 15 "main projects" shown in this figure. The selection issue arises if a line segment intersects both the dotted vertical lines for the years 2008 and 2012. From the figure, we do not see any instance of such a situation. However, wind projects under Majestic and Sherbino warrant more attention. The first phase of Majestic was completed in 2009 and the second one was completed in 2012. This is not a cause of concern since the first phase started operating post CREZ announcement in 2008 and only the second phase is counted in the dependent variable(s). In case of Sherbino, although the first phase was completed in 2008, the second phase was completed in 2011 and is therefore not included in the dependent variable(s).

G Supplementary Tables

G.1 Robustness checks for matching on unobservables

G.1.1 Results excluding 'opposing' counties

	Dependent variable				
	Total Nameplate Capacity (MW) (1)	Total Turbines (2)	Avg. Capacity of a project (MW) (3)		
CREZ	67.29** (25.93)	36.72*** (12.42)	28.16* (15.63)		
Mean Dep. Variable	40.807	18.15	29.804		
Controls	165.9 √	202.5	94.3 √		
Group \times Trend FE Matching Weights	\checkmark	\checkmark	\checkmark		
Sample	Matched	Matched	Matched		
Observations	280	280	280		
R ²	0.489	0.505	0.471		

Table G1: Effect of CREZ expansion on wind investment - matching results

Notes: This table reports the result of regressions excluding 'opposing' counties (Kendall, Gillespie, Newton, Kimble, Kerr, Mason, and Schleicher) from the overall sample before using Coarsened Exact Matching to obtain the matched sample. Total number of control counties is 23 and total number of treated counties are 12. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

G.1.2 Results excluding 'enthusiastic' counties

	Dependent variable				
	Total Nameplate Capacity (MW) (1)	Total Turbines (2)	Avg. Capacity of a project (MW) (3)		
CREZ	89.83***	48.53***	37.60^{*}		
	(30.60)	(14.78)	(18.74)		
Mean Dep. Variable	36.636	16.484	26.761		
Semi-elasticity (%)	245.2	294.4	140.5		
Controls Group \times Trend FE	\checkmark	\checkmark	\checkmark		
Matching Weights	√	√	√		
Sample	Matched	Matched	Matched		
Observations	312	312	312		
R ²	0.498	0.517	0.436		

Table G2: Effect of CREZ expansion on wind investment - matching results

Notes: This table reports the result of regressions excluding 'enthusiastic' counties (Dallam, Sherman, Oldham, Swisher, Lipscomb, Parmer, Lamar, Hall, Deaf Smith) from the overall sample before using Coarsened Exact Matching to obtain the matched sample. Total number of control counties is 26 and total number of treated counties are 13. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.1

G.1.3 Results excluding 'opposing' and 'enthusiastic' counties

	Dependent variable				
	Total Nameplate Capacity (MW) (1)	Total Turbines (2)	Avg. Capacity of a project (MW) (3)		
CREZ	80.84*** (29.04)	44.47*** (13.43)	32.42^{*} (18.84)		
Mean Dep. Variable Semi-elasticity (%)	41.033 197.0	18.348 242.4	29.000 111.8		
Controls Group \times Trend FE	√ √	\checkmark	\checkmark		
Matching Weights	√ Matched	√ Matched	√ Matched		
Observations R ²	256 0.517	256 0.545	256 0.466		

Table G₃: Effect of CREZ expansion on wind investment - matching results

Notes: This table reports the result of regressions excluding 'opposing' (Kendall, Gillespie, Newton, Kimble, Kerr, Mason, and Schleicher) and 'enthusiastic' (Dallam, Sherman, Oldham, Swisher, Lipscomb, Parmer, Lamar, Hall, Deaf Smith) counties from the overall sample before using Coarsened Exact Matching to obtain the matched sample. Total number of control counties is 20 and total number of treated counties are 12. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p< 0.1

G.2 Investment spillovers to control counties adjacent to CREZ (treated) counties

	Dependent variable				
	Total Nameplate Capacity (MW)	Total Turbines	Avg. Capacity of a project (MW)		
	(1)	(2)	(3)		
CREZ	76.82**	42.49**	36.01*		
	(33.45)	(16.08)	(21.11)		
Adjacent to CREZ	4.25	3.24	9.20		
	(27.49)	(12.99)	(19.47)		
Mean Dep. Variable	35.907	16.067	26.951		
Semi-elasticity (%)	213.9	264.4	133.6		
Controls	\checkmark	\checkmark	\checkmark		
Group \times Trend FE	\checkmark	\checkmark	\checkmark		
Matching Weights	\checkmark	\checkmark	\checkmark		
Observations	344	344	344		
R ²	0.467	0.477	0.426		

Table G4: Regression results with an indicator for control counties adjacent to CREZ

Notes: This table reports the estimate from Equation 15. The sample is a balanced panel of 13 treated (CREZ) and 30 control (non-CREZ) counties from 2012-2019 obtained using CEM. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. 'Adjacent to CREZ' is an indicator specifying whether a control county is adjacent to a treated county. There are 17 adjacent control counties. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

G.3 Robustness check results with different specifications for full and matching samples

	Dependent variable: Total Nameplate Capacity (MW)				
	(1)	(2)	(3)	(4)	
CREZ	51.14** (24.31)	43.04* (22.60)	57.11 (34.43)	73.73** (29.45)	
Controls		\checkmark		\checkmark	
Sample	Full	Full	Matching	Matching	
Mean Dep. Variable	33.069	33.069	35.907	35.907	
Observations R ²	2,024 0.027	2,024 0.221	344 0.061	344 0.467	

Table G₅: Effect of CREZ on total wind capacity (MW)

Notes: The dependent variable is total wind capacity (MW) in a county in year t. The independent variable is a binary variable indicating whether a county is CREZ or not. Full Sample is a balanced panel of 253 Texas counties from 2012 - 2019. Matched Sample is a balanced panel of 13 treated (CREZ) and 30 control (non-CREZ) counties from 2012 - 2019 obtained using CEM. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. Specification in Columns (2) and (4) include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects in Column (4) to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p< 0.1

	Dependent variable: Total Turbines in a County			
-	(1)	(2)	(3)	(4)
CREZ	27.49** (12.74)	23.36** (11.82)	31.36* (17.77)	40.13*** (14.46)
Controls		\checkmark		\checkmark
Sample	Full	Full	Matching	Matching
Mean Dep. Variable	15.928	15.928	16.067	16.067
Observations	2,024	2,024	344	344
\mathbb{R}^2	0.033	0.209	0.081	0.476

Table G6: Effect of CREZ on total wind turbines

Notes: The dependent variable is the total number of turbines in a county in year t. The independent variable is a binary variable indicating whether a county is CREZ or not. Full Sample is a balanced panel of 253 Texas counties from 2012 - 2019. Matched Sample is a balanced panel of 13 treated (CREZ) and 30 control (non-CREZ) counties from 2012 - 2019 obtained using CEM. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. Specification in Columns (2) and (4) include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects in Column (4) to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

	Dependent variable: Average Capacity (MW) of a project				
	(1)	(2)	(3)	(4)	
CREZ	19.64**	10.62	25.51	29.33	
	(9.86)	(10.04)	(19.49)	(17.71)	
Controls		\checkmark		\checkmark	
Sample	Full	Full	Matching	Matching	
Mean Dep. Variable	19.990	19.990	16.067	16.067	
Observations	2,024	2,024	344	344	
R ²	0.014	0.200	0.027	0.425	

Table G7: Effect of CREZ on size of a wind project

Notes: The dependent variable is the average capacity (MW) of a wind project in a county in year *t*. The independent variable is a binary variable indicating whether a county is CREZ or not. Full Sample is a balanced panel of 253 Texas counties from 2012 - 2019. Matched Sample is a balanced panel of 13 treated (CREZ) and 30 control (non-CREZ) counties from 2012 - 2019 obtained using CEM. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. Specification in Columns (2) and (4) include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include FE for PTC and wind ordinance in a county. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include group-by-trend fixed effects in Column (4) to allow for time-varying unobserved factors affecting matching groups. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

G.4 Long-Difference specification

	Dependent variable				
	Total Nameplate Capacity (MW)	Total Turbines	Avg. Capacity of a project (MW)		
	(1)	(2)	(3)		
CREZ	79.91	42.73	10.01		
	(67.01)	(31.61)	(36.88)		
Sample	Matched	Matched	Matched		
Observations	43	43	43		
R ²	0.151	0.166	0.092		

Table G8: Effect of CREZ expansion on wind investment - long difference specification

Notes: This table reports the estimate from Equation 17. The sample is 13 treated (CREZ) and 30 control (non-CREZ) counties. Each unit of observation is a long difference between 2019 and 2012. The independent variable is a binary variable indicating whether a county sited a substation for CREZ lines. All specifications include wind speed, capacity factor, terrain ruggedness, land price, population, and fixed effects for site specific wind turbine class and Zone. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1

G.5 Placebo test using cancelled CREZ counties

	Dependent variable				
	Total Nameplate	Total Turbines	Avg. Capacity		
	Capacity (MW)		of a project (MW)		
	(1)	(2)	(3)		
CREZ (placebo group)	29.61	20.43	-3.08		
	(36.43)	(16.97)	(19.24)		
Mean dependent variable	26.95	30.46	13.49		
Semi-elasticity (%)	109.8	67.1	-22.8		
Controls	\checkmark	\checkmark	\checkmark		
Zone FE	\checkmark	\checkmark	\checkmark		
Observations	296	296	296		
R ²	0.330	0.352	0.276		

Table G9: Results of regressions using cancelled CREZ counties as the treatment group

Notes: This table reports results of placebo test using cancelled CREZ counties as the treatment group and control counties from matching. All specifications include cubic polynomial of time trend and controls for wind quality, land price, terrain ruggedness, county level regulation, and demographics. Wind controls include site specific wind turbine class, capacity factor, and cubic polynomial of wind speed. Land price controls include average wind project cost, real land price, and median land acreage. Regulatory Controls include binary indicators for PTC expiration in 2013 and presence of a wind ordinance in a county in period *t*. Demographic controls include average farm size (acres) in 2007, median household income in 2007, and average population over 2007 to 2010. I also include ERCOT Load Zone fixed effects to allow for time-varying unobserved factors within load zones. Robust Standard Errors clustered at the county level reported in parenthesis. Significance: ***p<0.01;**p<0.05;*p<0.1