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PUC PROJECT NO. 47199

COMMISSION PROJECT TO ASSESS PRICE INFORMATION RULES IN ERCOT'S ENERGY ONLY MARKET	**§ § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

LOWER COLORADO RIVER AUTHORITY'S COMMENTS

In response to the Public Utility Commission of Texas's (PUC or Commission) Request for Comments, dated October 27, 2017, the Lower Colorado River Authority (LCRA) offers the following comments for consideration by the Commission, Commission Staff, and the participants in this project. LCRA provides wholesale power to thirty-three (33) municipal utilities and electric cooperatives who, in turn, serve over 1.1 million customers in the Electric Reliability Council of Texas (ERCOT). LCRA provides comments intended to address the interests of both generation resource providers and load serving entities.

LCRA offers answers to the Commission's questions below, but generally the comments can be summarized as follows.

- The market is working as designed. However, the current design does not support a 1 in 10 year Loss of Load Probability (LOLP) reliability goal. The following changes to the Operating Reserve Demand Curve (ORDC) could be made with minimum system impacts and would move the current design closer to a reliability goal of 1 in 10 year LOLP.
    - The ORDC should reflect the current NERC reliability standard of 2750 MW instead of the current 2000 MW.[1]
    - Remove the real-time reserves of Reliability Must Run (RMR) and Reliability Unit Commitment (RUC) resources from reserves that are counted in the ORDC. This will prevent out of market actions from inappropriately impacting scarcity prices.
- The market should appropriately allocate costs to load and wind resources for their share of the required reliability services. This can be accomplished by allocating Ancillary Services (AS) procurement costs to wind resources and load based on their impact to the required quantities of reliability services.
- Any changes to the market should be preceded by consideration of the implementation costs of those changes.

[1] Set the value of X in the PBMCL to the capacity of the two largest nuclear units, which is currently 2750 MW and is the requirement in the NERC reliability standard Bal03.

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1. What market design reforms, if any, are necessary to support efficient investment and retirement decisions in the Electric Reliability Council of Texas (ERCOT) region?

LCRA believes that the ERCOT market is working as designed. However, the 2014 Brattle Optimal Reserve Margin study indicated that the current market design would equalize at 11.5% reserve margin. With the current announced unit retirements, reserve levels could approach the 11.5% market stable reserve level. It is LCRA's belief that the market needs to yield a reserve margin that is much closer to the 1 in 10 year LOLP reliability goal.[2]

Some of the proposed market changes will do very little to increase this market reserve margin and potentially may be very costly. ERCOT has indicated that real-time co-optimization (RTC) will cost $40 million to implement. RTC is intended to allow generation resources to trade in and out of their day-ahead ancillary service obligations. Ancillary Services are settled in the day-ahead market and RTC would not change the day-ahead settlement process or the cost of Ancillary Services that is charged to loads.

While RTC may increase efficiency, LCRA supports the Commission's recent direction that an independent evaluation of the costs and benefits should be conducted before deciding to implement RTC at the estimated $40 million. Until this independent evaluation is complete, LCRA cannot determine if RTC provides an appropriate benefit.

2. Do wholesale electricity prices in ERCOT fully reflect the value of supply during normal conditions? During shortage conditions? If not, what changes should be made?

In an energy-only market it is vital that energy prices accurately reflect system conditions, especially as operating reserves are being depleted. In ERCOT, the ORDC has improved scarcity price formation, but additional adjustments are necessary to ensure that future prices will more closely align with reliability goals.

Generators in the ERCOT market are struggling to recover costs to produce electricity. As more thermal units in ERCOT are retired, overall capacity declines, and the generation supply mix continues to change with increasing penetration of intermittent renewable resources, LCRA is increasingly concerned that reliable and adequate supply will not be available to meet system demands. Accordingly, LCRA supports the following proposals to improve pricing outcomes in times of scarcity that will in turn improve the reliability reserve margins in ERCOT.

Set the Minimum Contingency Value for the Operating Reserve Demand Curve Equal to the current NERC reliability standard contingency requirement, which is equal to the capacity of the two largest nuclear units in ERCOT

LCRA recommends setting the Value of X in the Probability Below Minimum Contingency Level (PBMCL) calculation for the ORDC to equal the capacity of the two largest nuclear units in ERCOT, in order to reflect the critical reliability reserve importance. It is important

[2] The 1 in 10 year LOLP study performed by ERCOT and approved by TAC in 2013, indicated that the 1 in 10 year reliability goal was a 16.1% reserve margin.

that the SCED dispatch properly reflect the value that the reliability standard places on contingency reserves.

The current minimum contingency value of 2,000 MW means that RRS and URS can be deployed during emergency conditions at real time prices that may not reflect the true scarcity of the system condition. Because these reserves are purchased and maintained for reliability, prices should reflect scarcity conditions before the reliability reserves are utilized in ERCOT emergency conditions. LCRA's proposal to make the value of X equal to the NERC reliability standard of 2,750 MW contingency reserve requirement will ensure that these critical operating reserves will not be compromised at price levels below the SWOC.

Remove RUC and RMR from ORDC Reserves

For all out-of-market actions, such as RMR and RUC, the ORDC reserves should be decreased by the quantity of online reserve capacity of these committed out-of-market resources.

3. Are the reliability contributions of units subject to operator-initiated commitment being undervalued due to mitigation or for any other reason? Are the current pricing rules sufficient to control for the locational effect of reliability deployments? If the current pricing rules are not sufficient, what changes should be made?

The LCRA proposal under question number 2 above will address the impact that out-of-market units have on scarcity pricing. While ERCOT has stated that they do not believe there is a locational problem, if there is a future concern regarding locational issues, then a local ORDC should be explored. It is potentially possible to implement a local ORDC without real-time co-optimization which is estimated to be very expensive. The removal of the RMR and RUC unit reserves from ORDC could help with these situations because it will increase the value of all reserves, and it doesn't create local market power concerns like some proposals that only deal with the local unit's energy offer curve.

4. Are out-of-market payments for renewable generation interfering with competitive outcomes in ERCOT's wholesale electricity market? If so, please describe this effect and provide any relevant analysis. How should any interference be corrected, if at all?

In addition to federal subsidies providing out-of-market incentives for wind resources, wind resources, operating as negative load, create an increased strain on the system requiring additional ERCOT actions. The intermittent nature of wind resources, which are now 25% to 50% of energy supplied to the ERCOT grid, require additional system-wide capacity deployments in order to reliably operate the grid. Currently, ERCOT Methodologies for Determining Minimum Ancillary Service Requirements (AS Methodology) calls for ERCOT to procure additional reserves to protect against forecast uncertainty as a result of unpredictable wind generation increases and decreases. As a result, LCRA supports appropriately requiring wind resources to fulfill a proportional share of ancillary service requirements. LCRA believes this could be accomplished via a Nodal Protocol Revision Request (NPRR) at ERCOT.

5. Given recent retirement announcements, should the commission defer certain changes to the market design to observe market dynamics over summer 2018 or longer?

ERCOT has announced that the December 2017 Report on Capacity, Demand and Reserves (CDR) will be available on December 18, 2017. LCRA's preference would be to delay detailed discussions and any decisions on RTC and local reserves until all market participants can review, evaluate, and conduct additional analysis of the CDR findings. LCRA also acknowledges that to adequately consider the true impact of the recent retirement announcements on RTC and local reserves it may be more appropriate to delay decisions on those market reforms until after the summer 2018 peak and the cost benefit analysis has been completed.

6. Please comment on the appropriate allocation of the excess revenues collected under marginal loss pricing. How should this surplus be distributed and why?

LCRA and many other market participants have participated in discussions with ERCOT regarding the implementation of marginal loss pricing. It is still unclear to LCRA what assumptions are being used to evaluate marginal loss pricing. LCRA believes that discussion of the allocation of any potential excess revenues may be premature and could also be conducted in many different ways. Therefore, LCRA supports an independent evaluation of the implementation of marginal losses in ERCOT, but LCRA also supports more in-depth discussions by market participants on this topic before suggesting how any excess revenues should be distributed.

7. Please provide any other comment regarding the merits of the specific proposals set forth in the FTI Consulting Report or in the written comments filed by the Independent Market Monitor or other parties in this project.

LCRA supports the Commission's decision to narrow the scope of the project by separating and removing from Project 47199 the transmission cost allocation issue and transmission billing unit changes. LCRA suggests that the extent of the remaining array of proposals for market reforms in Project 47199 remains broad, and that further narrowing of the scope will aid in moving forward with any necessary market reforms. In addition, as an active market participant in the ERCOT stakeholder process, LCRA's preference is for many of the proposals that do not warrant deliberations at the Commission to be taken up in the stakeholder process at ERCOT instead. This approach will more specifically target more minor and efficient market changes with minimal administrative costs.

LCRA appreciates the opportunity to provide input on these important issues. LCRA supports the Commission's actions and will continue to work with the Commission, ERCOT and market participants to find appropriate approaches to bolster reliability in ERCOT.

Respectfully submitted,

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