Control Number: 48551

Item Number: 57

Addendum StartPage: 0

Public Utility Commission of Texas

RECEIVED

Memorandum

2019 JAN 17 AM 8:02

PUBLIC UTILITY COMMISSION
FILING CLERK

TO: Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin

FROM: Chairman DeAnn T. Walker DTW

DATE: January 16, 2019

RE: Open Meeting of January 17, 2019

Agenda Item No. 19 - Project No. 48551 - *Review of Summer 2018 ERCOT Market Performance*

Agenda Item No. 20 - Project No. 48539 - *Review of the Inclusion of Marginal Losses in Security-Constrained Economic Dispatch*

Agenda Item No. 21 - Project No. 48540 - *Review of Real-Time Co-Optimization in the ERCOT Market*

The issues before us are very serious and complex; therefore, I want to be clear on my thoughts related to the various issues that are for the Commission's consideration. I want to have an open dialogue at the open meeting, but I wanted to also set forth my thoughts in written format to provide more clarity on my position.

Although the Commission has always provided oversight of the electric market, in May 2017, the Commission began gathering more specific information on issues related to the current electric market. Even though the project that started this process began before I was appointed, I have read all of the information submitted in each project and attended all of the workshops that have been held. I have also held multiple personal meetings with anyone that has wanted to discuss the issues with me.

I have learned a significant amount during the time that I have studied the issues, and I truly appreciate all of the hard work everyone has done to educate and inform me on these very important issues. I want to thank all of the stakeholders, ERCOT, the Independent Market Monitor (IMM), and Commission Staff for all of the comments, reply comments, and analyses that went into thoroughly addressing all of the questions and requests for input that the Commission has set forth throughout this time period. In that time, there have been the following: at least eleven reports or studies filed; over 135 comments and reply comments filed; at least three workshops held, and at least ten open meetings in which the Commissioners have discussed the issues.

ORDC

In addition to the many comments that we have received on the operating reserve demand curve (ORDC), there have been various documents filed that include the following: multiple analyses, including back cast analyses; reports, including the Hogan-Pope Report and the Market Equilibrium Reserve Margin (MERM) and the Economically Optimal Reserve Margin (EORM) reports; and many predictions about potential impacts to the wholesale and retail markets. All of the modeling has been beneficial to my thought process.

I am greatly concerned with the results shown in ERCOT's most recent report on capacity, demand, and reserve (CDR) that was issued on Tuesday, December 4, 2018. In addition, there has been the announcement of the retirement of the Gibbons Creek plant that brings the reserve margin even lower. I truly believe that the Commission must take some action to address the sinking reserve margins in ERCOT. While those actions will likely increase prices in ERCOT, I also do not believe that inaction on the Commission's part will keep wholesale prices from increasing. To the contrary, low reserves will likely lead to higher prices as well as increase the threat of power interruptions. As we all are aware, power interruptions come with an economic cost as well. I believe that by the Commission taking measured actions to address the reserve margin concerns, the market can continue to operate in an open and competitive manner.

Therefore, I propose that the Commission use a phased-process to implement changes to the ORDC. This will allow a modest adjustment for the summer 2019 with a second phase in 2020 to allow retail electric providers and customers a time period to adjust. Therefore, I propose that the Commission direct ERCOT to implement a .25 standard deviation shift in the loss of load probability (LOLP) calculation using a single blended ORDC curve as soon as practicable with a second step of .25 in the spring of 2020.

The most recent CDR as well as the announcement of the retirement of the Gibbons Creek plant has only solidified my position. I believe that if the Commission implements these changes to the ORDC, there should be various responses from the entire market, such as the following: increased development of demand response, distributed generation, self-generation by customers, increased investment in generation maintenance, delays in pending generator retirements, expedited return to service of certain generating units, and additional investment in newer generation technologies that are quicker to build and more operationally flexible. I believe that some of these responses can be realized before summer of 2019 with Commission action at this time.

Real Time Co-optimization

I believe real time co-optimization brings not only economic benefits that exceed its costs, but operational benefits for ERCOT as well. These benefits and costs were discussed in detail by ERCOT and the IMM in filings made on June 29, 2018. After consideration of the information provided by ERCOT, the IMM, and the many parties that commented on the issue, I propose that the Commission instruct ERCOT to proceed with the implementation of real time co-optimization. If the Commission determines that real time co-optimization should be implemented, then there are additional issues that must be addressed either by the Commission or in the stakeholder process before ERCOT can move forward with implementation.

If the Commission decides to implement real time co-optimization, then I propose having the Commission Staff bring back to the Commission on February 7th a list of policy issues that can be published for stakeholder comment. I also propose requesting that ERCOT submit a high-level implementation plan and timeline, so that the Commission can determine the expectations for timing and milestones during the implementation of the project. Lastly, I propose that the project be funded through the favorable variance in the revenues that occurred in 2018 and will likely occur in 2019 by ERCOT. Such funds should be set aside for future use for this project.

Marginal Losses

On June 29, 2018, ERCOT submitted a study on the costs and benefits of including marginal losses in the security-constrained economic dispatch (SCED). After consideration of the information provided by ERCOT, the IMM, and the many parties that commented on the issue, I do not recommend implementation of marginal losses in SCED. Although assigning marginal transmission losses is common in other markets and an efficient way to account for losses, I do not believe that the incremental benefit of applying marginal losses in the ERCOT market is worth the implementation cost and market disruption.

I look forward to having a robust discussion at the open meeting.