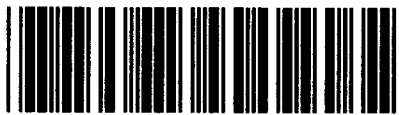




Control Number: 34577



Item Number: 95

Addendum StartPage: 0

PROJECT NO. 34577

PROCEEDING TO ESTABLISH
POLICY RELATING TO EXCESS
DEVELOPMENT IN COMPETITIVE
RENEWABLE ENERGY ZONE
(CREZ)

§
§
§
§
§

PUBLIC UTILITY COMMISSION
OF TEXAS

2008-08-29 11:21:18

COMMENTS OF TEXAS COMPETITIVE POWER ADVOCATES

Texas Competitive Power Advocates ("TCPA") appreciates the opportunity to file comments in this proceeding pursuant to the Commission's questions published in the August 29, 2008 issue of the *Texas Register*. TCPA is a trade association representing power generators, wholesale power marketers and retail electric providers, all of whom are active participants in ERCOT's wholesale and retail electric markets.¹ TCPA's members that own and operate electric generating plants provide over half the total net generating capacity in ERCOT, and utilize almost every type of commercially available generating technology, including nuclear, coal, natural gas, wind and solar.

TCPA has not heretofore participated in this rulemaking proceeding, due to our understanding that its original intent was to consider dispatch priority approaches and mechanisms that affected wind generation only. Based on dicta in the Commission's Order in Docket No. 33672 and Staff's question number 5 herein, however, it is apparent that there is some interest on the part of the Commission to include other generating technologies in its consideration of administrative dispatch preferences. TCPA is concerned with the possibility that administrative dispatch preferences not limited to wind on wind congestion in the Competitive Renewable Energy Zones ("CREZs") will interfere with the security constrained

¹ TCPA members include Calpine Energy Services, LP, Citigroup Energy, Inc., Constellation Energy Commodities Group, Shell Energy North America (US), L.P., Cottonwood Energy, LP, Deutsche Bank AG New York, Exelon Generation (Power Team), FPL Energy, LLC, GDF-Suez Energy Marketing North America, Goldman Sachs & Co., Gregory Power Partners, LP, International Power America, LS Power Associates, LP, NRG Texas LLC, PSEG Energy Resources & Trade, LLC, RBS Sempra Commodities LLP, and Topaz Power Management, LP.

economic dispatch (“SCED”) that is the centerpiece of the Texas nodal market, and create serious potential adverse impacts on reliability. We have additional concerns that granting administrative dispatch priority by means of an auction of congestion revenue rights (“CRRs”) may introduce additional complexity into an already complicated system. Due to the complexity, potential reliability and economic impacts, and the currently undefined status of these issues, TCPA urges the Commission to conduct workshops and implement processes covering dispatch priority and CRRs that allow a well-vetted dialogue among all potentially affected market participants.

I.

ERCOT’s current zonal market, wherein individual generation owners optimize dispatch within their portfolios when deployed, will always produce a suboptimal dispatch for ERCOT as a whole and burden electric consumers with millions of dollars of unnecessary congestion management costs. In the Texas nodal market, ERCOT operations will run a single step optimization for the entire market and dispatch resources accordingly. The tool used by ERCOT, the SCED, will determine the least cost ERCOT-wide dispatch based upon individual resource offer prices while observing all transmission security and generator operating constraints. It was a simulation of this dispatch that produced the \$1.1 billion in annual generation cost savings found in the Backcast assessment of the ERCOT Market Restructuring Cost-Benefit Analysis Final Report ordered by the Commission and filed in Project No. 28500.² In addition to significant cost savings, the SCED will improve frequency control in ERCOT by reallocating energy among economic resources every five minutes (thereby potentially reducing the amount of Regulation Reserve Service needed) and, in the event of the loss of a large generating unit, expeditiously reallocating that lost generation to other responsive on-line generation.

² “Activities Relating to the Implementation of a Nodal Market for the Electric Reliability Council of Texas.” See page 4-8 of the report by Charles River Associates and KEMA, Inc. filed by ERCOT on Dec. 21, 2004.

TCPA is concerned that introducing additional administratively-determined dispatch requirements into the SCED may compromise its effectiveness, reduce the anticipated costs savings for electric customers, and adversely affect system reliability. Regarding the latter, significantly altering SCED could discourage investment in the diverse mix of generating units required to most reliably and economically meet load demand in ERCOT. For example, investment will be critically needed in units providing ancillary services, such as Regulation and Responsive Reserve Services, that are essential for frequency control and system security. TCPA believes that mechanisms potentially affecting system reliability should be discussed, analyzed and decided by ERCOT, subject to PUC oversight, rather than created in the first instance in a rulemaking proceeding.

TCPA is aware that one approach to dispatch priority under consideration in this proceeding is an auction of multi-year congestion revenue rights (“CRRs”) to “priority” generation technologies. Underlying this approach is a belief that this will not introduce distortions in the economic dispatch of the nodal market. At this early stage of the proceeding, however, and without knowing anything about the feasibility, design, implementation or effect of such an auction, it is impossible to opine with any certainty on whether it will compromise the SCED or have other potential deleterious impacts such as reducing the number of CRRs available to other qualified market participants. TCPA strongly believes that if a dispatch priority mechanism is ultimately deemed to be necessary, it is imperative that a well-vetted process be established to determine how it synchs up with the Texas nodal market.

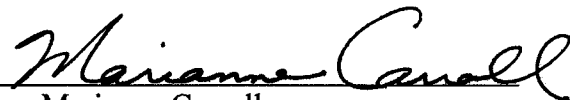
II.

TCPA’s members were among the first to recognize the cost savings and reliability benefits to be gained from implementing a nodal market in ERCOT, and have worked hard and tirelessly with other market participants for its successful implementation. None of our members

favors the adoption of any dispatch priority mechanism that distorts the SCED or compromises price and investment signals. All of our members have concerns about the potential herein for unintended consequences and non-market-based outcomes.

In light of the lack of clarity regarding these issues and the very recent new interest in expanding the universe of generating technologies eligible for dispatch priority, TCPA respectfully requests that the Commission hold a workshop in this project before proceeding further. TCPA does not seek to unnecessarily delay this proceeding, which we understand has been pending for over a year, and will be pleased to submit a list of questions for the workshop. But the serious nature of the potential market and reliability effects of any decisions made in this proceeding warrants a full and frank exploration of the issues raised herein among Staff, participating parties, and the additional market participants (including TCPA) now potentially affected pursuant to the Commission's Docket No. 33672 Order. TCPA suggests that it may be appropriate following such a workshop for the Staff to reissue its questions based on the discussions therein, or to solicit additional written comments. TCPA looks forward to discussing its concerns and questions with Staff and the parties at the earliest opportunity.

RESPECTFULLY SUBMITTED,

By: 

Marianne Carroll
State Bar No. 03888800
Brown McCarroll, L.L.P.
111 Congress Ave., Suite 1400
Austin, TX 78701
mcarroll@mailbmc.com
Telephone: 512-479-1156
Telecopier: 512-481-4846

ATTORNEYS FOR TEXAS
COMPETITIVE POWER ADVOCATES