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PROJECT NO. 38533

PUC REVIEW OF ERCOT BUDGET	**§**	**PUBLIC UTILITY COMMISSION**
	§	
	§	**OF TEXAS**

TEXAS OIL & GAS ASSOCIATION COMMENTS ON ERCOT'S 2024/2025 BIENNIAL BUDGET AND SYSTEM ADMINISTRATION FEE SUBMISSION

The Texas Oil & Gas Association (TXOGA) appreciates the opportunity to file comments in Project No. 38533 regarding the Public Utility Commission (PUC) Review of the Electric Reliability Council of Texas (ERCOT) Budget. TXOGA is a statewide trade association representing every facet of the Texas oil and gas industry including small independents and major producers. Collectively, the membership of TXOGA produces approximately 90 percent of Texas' crude oil and natural gas, operates nearly 90 percent of the state's refining capacity, and is responsible for the vast majority of the state's pipelines. In fiscal year 2022, the Texas oil and natural gas industry supported 443,000 direct jobs and paid $24.7 billion in state and local taxes and state royalties, funding our state's schools, roads and first responders.

We commend the PUC for facilitating a workshop to review the budget and for welcoming public feedback. TXOGA recognizes the significance of a robust operating budget in ensuring seamless operations, adaptability, and overall reliability of Texas' electricity grid. However, we have reservations about ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission, which we hope the Commission will address.

In assessment of ERCOT's budget proposal, we observe that:

1. ERCOT's administrative fee rate considerably outstrips those of other Independent System Operator/Regional Transmission Organization ISO/RTOs.
2. Historically, there is no precedent for the substantial increase ERCOT is now seeking.
3. ERCOT's submission suggests they've achieved or surpassed 97% of their key performance indicators (KPIs) within their existing budget, implying its adequacy.

ISO/RTO Comparative Facts

ERCOT: Covers most of Texas, serving 26 million Texans and 90% of the state's electric load. ERCOT has around 1,000 employees. Operates a capacity market: No.

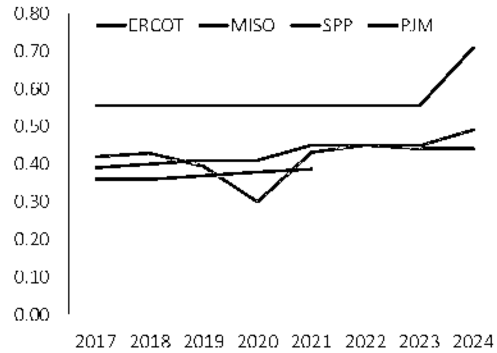
MISO: Covers a large portion of the central U.S., from the Gulf of Mexico to Canada, including parts of 15 states and the Canadian province of Manitoba, serving 42 million people. MISO has over 1,000 employees. Operates a capacity market: Yes, voluntary auction.

PJM: Serves 13 states and the District of Columbia, with a total of more than 65 million people. PJM has over 900 employees. Operates a capacity market: Yes, Reliability Pricing Model (RPM).

SPP: Covers parts of 14 states in the central United States, stretching from North Dakota to Northern Texas, serving 18 million people. SPP has over 600 employees. Operates a capacity market: No.

ISO/RTO Composite Expense Rates

Dollars per MWh of load served



Sources: ERCOT, PJM, MISO, SPP

It's worth noting that ERCOT's fee proposal already surpasses other national ISO/RTOs. In the past, ERCOT's system administration fee was between 25% and 40% higher than those of Midcontinent Independent System Operator (MISO), Pennsylvania-New Jersey-Maryland Interconnection (PJM), and Southwest Power Pool (SPP). With the 2023 proposed budget, this fee is projected to climb to 45% to 70% above other ISO/RTOs. Remarkably, while both MISO and PJM operate capacity markets at lower administrative fees, ERCOT is seeking an additional $21.6 million in 2024 for a market design project. This underscores that other ISO/RTOs are managing to achieve more with fewer resources. Notably, even sustaining the System Administration Fee at its current rate would generate higher revenues for ERCOT with load growth over time.

Moreover, historical trends among ISO/RTOs do not support the magnitude of the increase proposed by ERCOT. Although the rationale for the augmented system administration fee was described as “leveled and thoughtful” during the open meeting, the justifications for such a hike appear weak.

We'd also like to emphasize two aspects: workforce considerations and the rationale for increased legal and office space expenses.

Regarding ERCOT’s staff, while it's clear that a competent and skilled workforce is crucial for their upcoming projects, securing the required expertise in one go might be challenging. We recommend that the PUC consider requesting ERCOT to periodically report on their hiring to ensure they onboard the critical roles as promised. From TXOGA’s standpoint, there should be a focus on recruiting transmission planning engineers. The PUC should also recognize that the proposed staffing surge, considering its scale, will be time intensive. Recruiting the desired volume and caliber of personnel as proposed by ERCOT might not be realistic, especially if it leads to outsourcing, which could compromise institutional capacity growth and cost-effectiveness.

In addition, ERCOT has sought more funds for their legal and lobbying pursuits, aiming to manage rising litigation and to "collaborate and support Texas leadership." Although oversight of the electricity market has garnered more legislative intervention, ERCOT's primary ambit should remain its focus on fundamental stability and reliability of the grid. While we acknowledge ERCOT's role in advising the legislature, we urge the Commission to evaluate the prudence of such expenditures. Elevating expenses in these domains might sidetrack ERCOT from its primary mission of serving the public by ensuring a reliable grid, efficient electricity market, open access and retail choice. Furthermore, ERCOT's claim about leasing office space in multiple venues warrants thorough examination. In contrast, other state bodies liaise with the legislature without imposing extraordinary costs on Texans. Given the recent rise in electricity rates, the PUC should judiciously consider the best use of consumer funds.

To conclude, we understand the necessity for a budget increment to realize projects like Dispatchable Reliability Reserve Service (DRRS), transmission planning for the Permian Basin, Real-time co-optimization, among others. However, we urge the Commission to meticulously scrutinize the budget, ensuring cost savings for consumers. Ultimately, consumers shoulder these costs, making rate affordability and stability paramount.