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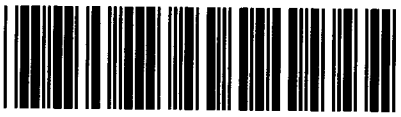

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PROJECT NO. 40000

PROCEEDING TO ENSURE	§	**PUBLIC UTILITY COMMISSION**
RESOURCE ADEQUACY	§	
IN TEXAS	§	**OF TEXAS**

GOLDEN SPREAD's COMMENTS REGARDING RESOURCE ADEQUACY IN ERCOT

TO THE HONORABLE PUBLIC UTILITY COMMISSON:

These comments are submitted on behalf of **Golden Spread** Electric Cooperative, Inc., ("Golden Spread") **Golden Spread** in response to the Public Utility Commission of Texas' ("PUC" or "Commission") request for comments made at the PUC open meeting of August 29, 2013. Herein, Golden Spread sets out its positions on issues relating to resource adequacy addressed in a memorandum dated August 8, 2013, filed by Chairman Nelson ("**Chairman Nelson's Memo**"), additional comments filed by NRG Energy, Inc., dated August 27, 2013 (**NRG Comments**), and draft comments expected to be filed by the Electric Reliability Advocates, ("**ERA Comments**"), in Public Utility Commission of Texas' ("**PUC**" or "**Commission**") Project No. 40000, *Proceeding to Ensure Resource Adequacy in Texas.*

In these comments, Golden Spread urges the Commission to take the following steps: (1) establish a reliability goal of one event in 10 years; (2) direct ERCOT to determine the reserve margin that would be necessary to achieve that goal; and (3) make the appropriate reserve margin a requirement for planning resources rather than a voluntary target. In this way, Texas will have the best chance of achieving adequate reliability, limiting rotating outages in the Electric Reliability Council of Texas ("**ERCOT**"), and promoting economic growth.

I. GOLDEN SPREAD's INTEREST

Golden Spread is a non-profit electric generation and transmission cooperative committed to delivering low cost and reliable power to its 16 member distribution electric cooperatives that provide retail electric service to about 223,000 electric meters serving member-consumers in the Panhandle, South Plains and Edwards Plateau regions of Texas. While others have been unwilling to construct generation, municipalities and cooperatives have been building generation plant to serve their loads. Notwithstanding extensive arrangements to provide adequate reserves for their loads, the retail distribution members of Golden Spread are subject to rotating outages because the market as a whole does not incent construction of sufficient

capacity. Thus, the member distribution cooperatives and thousands of their retail members are adversely affected by the current market structure.

II. A PROPOSAL FOR MOVING FORWARD

Issues

After years of discussing potential changes in the ERCOT market design and implementing some partial measures, it is time to re-focus our efforts. The fundamental issue is that the current ERCOT market design does not produce revenues sufficient to encourage investment in new generation. In Chairman Nelson's Memo, she outlines three questions that need to be addressed if we are to get to the bottom of this fundamental issue, as follows:

> ...The first three questions we need to decide are:
> - Should the electric market in ERCOT continue to provide the same level of reliability to which Texans are accustomed, the same level that electric markets in the rest of the United States provide?
> - If so, what is the planning reserve margin necessary to achieve that level of reliability and should it be a required planning reserve margin?
> - What is the most efficient, market-based way of achieving the required planning reserve margin?[1]

Golden Spread believes that these are indeed the issues that need to be decided.

Sequence

In addition, it will be important that the issues be addressed in the sequence set forth in Chairman Nelson's Memo. The sequence is important because it will be difficult if not impossible to answer the question of what is the most efficient way of achieving a planning reserve margin without first knowing what the reliability goal is to be and whether it should be a mandatory planning goal or only a desired target. In other words, the sequence of questions laid out in Chairman Nelson's Memo presents a logical way of narrowing the issues. The answer to the first question informs and narrows the policy decisions that come after. By contrast, starting at the bottom and imposing market design changes will leave the Commission, the parties to this proceeding and the investment community wondering if adequate reliability is being achieved and without any objective from which to measure success or the need for improvement.

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[1] Chairman Nelson's Memo at p. 6.

III. GOLDEN SPREAD'S POSITION

The Reliability Goal

Golden Spread believes it would be prudent to adopt as a reliability standard the following: one loss of load event (LOLE) every 10 years. Our understanding is that this standard is consistent with reliability standards applied in other parts of the country and consistent with expectations of business and residential electricity consumers in Texas. Electrical outages are highly disruptive and there should be a great deal of certainty that the probability of an outage event is low. A reliable system promotes both economic and job growth. The NRG Comments present a study by Charles River Associates concluding that "the benefit of a required reserve margin to the state, net of the incremental cost of a capacity market, is estimated to be $14 billion over the next 15 years; and saves over 58,000 jobs in an extreme weather year such as 2011." [2]

Some parties have commented that application of this standard would increase ERCOT's current 13.75% target to 16.1%. There are, however, a significant number of variables[3] in the calculation of the appropriate reserve margin so the appropriate reserve margin may be greater or less than 16.1%. Chairman Nelson has suggested that the PUC should leave it to ERCOT to determine what level of reserve margin will meet the goal set by the Commission. Golden Spread agrees with this approach, however, we also believe that the PUC should review and approve ERCOT's recommended reserve margin.

Reliability is paramount. PURA § 39.101(f) requires the Commission to modify its rules regarding customer protections to ensure that at least the same quality of service that exists on December 31, 1999, is maintained in a restructured electric industry. Texas should not have a standard that is less than the prevailing standard elsewhere in the US and cannot do so without jeopardizing its enviable record of economic growth.

Mandatory or Target Planning Reserve Margin?

Golden Spread favors establishing a mandatory planning reserve with enforceable compliance.[4] We can think of no better way to gain certainty that the desired planning reserve will actually be met. Although the Commission has increased the high system wide offer cap and some new generation projects have been announced, it is not likely, as the Brattle Report[5] analysis shows, that tweaks to the existing market design or even a $9,000 offer cap will incent sufficient

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[2] NRG Comments, at 1-2.

[3] For example, what is a loss of load event? Is it to be defined as a number of hours or a load shed event? Would short duration outages be aggregated?

[4] Golden Spread has suggested that the PUC should establish a mandatory resource adequacy requirement for load serving entities. Under this approach LSEs would be required to cover their load requirements and reserves.

[5] The Brattle Group: "ERCOT Investment Incentives and Resource Adequacy." The Brattle Report was originally filed on June 1, 2012, by ERCOT in PUC Project No. 40268.

generation to meet a reliability target that ensures resource adequacy.[6] The Brattle Report states the following:

> "Another important question is whether the PUCT and ERCOT should determine the desired level of bulk power reliability, or whether the reliability level should be determined solely through market forces. All other U.S. regulators have determined that reliability standards should be mandated, except to the extent that demand response allows customers to self-select a lower level of firm service. In those markets, bulk power reliability is treated as a public good with administratively-imposed standards ..."[7]

> "Allowing market forces to determine the level of resource adequacy is one of the chief theoretical advantages of the textbook energy-only construct.... However, . . . this construct is most effective with a substantial level of DR penetration that has not yet been achieved in ERCOT."[8]

Golden Spread urges the Commission to establish a reserve margin that is an enforceable requirement - not a target. The current energy-only market construct is not expected to deliver the level of resource adequacy, and thus reliability, that Texas consumers deserve.

Market Design

If the Commission chooses a reliability target consistent with the ERCOT's implementation of the one event in 10 years standard commonly used in the industry,[9] the market design in ERCOT will need to be adjusted if it is to provide any assurance of achieving that goal. Several concepts for alternative market designs have been proposed. The Brattle Group and the Independent Market Monitor ("IMM") have suggested that the most efficient mechanism to achieve a given reliability goal is a capacity market.[10] Golden Spread has proposed an alternative market design, similar to

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[6] The Brattle Report acknowledges that market design policy options that preserve an energy-only market, Options 1, 2 and 3 in the Brattle Report, do not provide a viable long-term solution to ERCOT's resource deficit. In fact, these approaches may add to price volatility and uncertainty, which will not improve the prospects for investment in generating capacity necessary to reliably serve growing demand in the ERCOT region. Brattle Report at 105, 106 and 109.

[7] Brattle Report at 103.

[8] Id.

[9] In its July 27 Workshop Presentation, ERCOT noted the one day in 10 years standard is used in many other regions (Cal ISO, PJM, NE-ISO, Midwest ISO, and NY ISO), and by FERC for NERC reliability standards. PUC Project 40480; Item 32, *ERCOT's Submission of ERCOT's and the Brattle Group's Presentations, and the Brattle Group's Responses to Entities' Technical Questions to be Addressed at the July 27, 2012, Commission Workshop*, Attachment A, Bates p. 000012. The SPP uses 24-hours-in-10 years standard and a 12% capacity margin, which translates to a 13.636% reserve margin.

[10] The Brattle Group; ERCOT Investment Incentives and Resource Adequacy at p. 115-116 (June 1, 2012); The IMM's 2012 State of the Market Report for the ERCOT Wholesale Electricity Markets at xxiv, PUC project 34677 (June 20, 2013).

Brattle Option 4, which has several important advantages. It relies less on the centralized control of a capacity market and instead on self-supply, bilateral trading and a residual auction for a standard commodity called a resource adequacy credit or "RAC." At this time, the structural characteristics of a capacity market for ERCOT have not been explored in detail. Accordingly, Golden Spread reserves judgment and notes that there may be some structures that Golden Spread either cannot support or can only support with some very important conditions.[11]

The operating reserve demand curve option B+ ("ORDC B+") does not appear to require a commitment from generators to provide capacity when needed. Based on Chairman Nelson's analysis, ORDC B+ might improve reserves if coupled with a high minimum contingency reserve level but the risk of price volatility in the market due to scarcity will remain. As Chairman Nelson has pointed out, the relative costs and benefits of attempting to achieve an acceptable reserve margin through some version of ORDC+ compared with other market design options have not been identified. In our opinion, ORDC B + has not been shown to be a solution that will resolve the resource adequacy issue. If implemented, it should not be relied on to delay or avoid addressing the issue. Nevertheless, implementation of ORDC B+, if properly structured, would be a marginal improvement to the current energy-only market design in ERCOT. Golden Spread believes it would be prudent to compare the costs and benefits of alternative options in a formal rulemaking once the reliability goal has been established by the Commission and the Commission determines whether the goal will be a target or an enforceable requirement.

IV. CONCLUSION AND PRAYER

First and foremost, Golden Spread and its distribution members are interested in being sure that the market design in ERCOT will keep the lights on. To this end, the Commission is urged to take up the issues identified by Chairman Nelson in the sequence presented, determine the reliability goal, and make it mandatory. At that time, the Commission should institute a formal rulemaking to address the costs and benefits of alternative market designs that will achieve the reliability goal.

Respectfully submitted,

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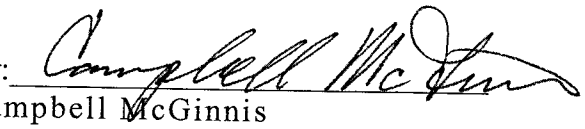
[11] A few, for example, are that a capacity market should facilitate self-supply and not contain a minimum offer price rule or a locational requirement for generation.

By: 

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