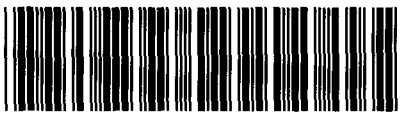

Control Number: 48539

Item Number: 13

Addendum StartPage: 0

PUBLICCITIZEN

309 East 11th St., Suite 2 • Austin, Texas 78701 • 512.477.1155 • www.citizen.org

RECEIVED

2018 OCT -8 AM 11:22

PUBLIC UTILITY COMMISSION
FILING CLERK

PROJECT NO. 48539

REVIEW OF THE INCLUSION OF MARGINAL LOSSES IN SECURITY-CONSTRAINED ECONOMIC DISPATCH	§ § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF PUBLIC CITIZEN

Public Citizen is a national, non-profit organization actively representing the interests of energy consumers by advocating affordable, reliable, and sustainable energy policy and infrastructure choices.

In the two decades since the restructuring legislation of the late 1990s, the ERCOT market design has delivered major benefits to Texas consumers and the Texas economy. The introduction of wholesale and retail competition into electricity markets has brought wave upon wave of increasingly cheaper and cleaner generation resources to replace the older, less efficient, and more polluting resources of the past. ERCOT's open access system and the state's commitment to transmission infrastructure has enabled consumers and communities to make sustainable energy choices on a scale unimaginable when the competitive market transition began – all while delivering reliable service at an affordable cost. The success of the ERCOT market design has been a key factor in supporting a robust Texas economy and improving the quality of Texas air and water.

Public Citizen appreciates the Commission's ongoing interest in ensuring the ERCOT market design remains efficient and supports long-term resource adequacy. However, Public Citizen urges the Commission to remember that maximizing efficiency, while a laudable goal, is not necessarily the highest public policy purpose of energy market design. Other key factors,

such as economic development, public health, environmental stewardship, honoring consumer choices, lowering costs, grid diversity, and maintaining a culture of regulatory certainty are also important strategic aims of thoughtful energy policy development. The Commission is the body charged with balancing the academic purity of ivory tower economists with the pragmatic needs of real-world Texans.

In Public Citizen's view, there is a long list of extra-market harms and unintended consequences likely to result from the adoption of including marginal transmission losses in Security-Constrained Economic Dispatch (SCED) and energy price formation. Therefore, Public Citizen recommends the Commission discontinue further consideration of the proposal to include marginal transmission losses in SCED.

RESPONSES TO STAFF QUESTIONS

Question 1: What are the benefits of implementing the use of marginal losses rather than average transmission losses in the Electric Reliability Council of Texas' (ERCOT's) Security-Constrained Economic Dispatch (SCED) over the long term?

Question 2: Are the benefits identified in response to Question 1 sufficient to justify the near term costs to the market as a whole? Please consider individual stakeholder implementation costs as well as the costs to ERCOT identified in its study.

Question 4: The ERCOT study of using marginal transmission losses instead of average transmission losses in SCED simulated one year. How would cumulative, multi-year impacts of using marginal transmission losses be different, if at all?

Irrespective of any theoretical benefits that may derive from adopting a marginal losses component in pricing, it is important to consider whether such a methodology for loss accounting is compatible with other key pillars of the ERCOT market design. Public Citizen agrees with the diverse array of comments filed in Project No. 47199 that note a fundamental incompatibility between the inclusion of marginal transmission losses in SCED and the purposeful design of ERCOT's transmission planning regime and postage stamp transmission pricing design.[1]

[1] PUCT Project No. 47199, *Project to Assess Price Formation Rules in ERCOT's Energy-Only Market*. Public Citizen notes widespread thoughtful critique of applying marginal transmission losses within the unique ERCOT market model from generators, loads, retailers, cooperatives, and others. In particular, see Vistra Energy's Dec. 1, 2017 comments at p. 15 accurately recounting the legislative intent of postage stamp pricing. Also see The ERCOT Steel Mills' Joint Comments of Dec. 1, 2017 at pp. 11-12 neatly summarizing the incompatibility of marginal losses with broader public policy goals of the State of Texas.

Public Citizen sees few, if any, real-world benefits over the long term that would result from the use of marginal transmission losses in SCED. Rather, Public Citizen is persuaded by credible analysis that the long-term benefits are almost *de minimis* when considered exclusively within the context of energy-only market efficiency[2] and actually non-existent when compared to the stated policy purpose of the marginal losses proposal – namely to incentivize generation resource development nearer load centers.[3] While some individual generators in the Houston load pocket would apparently benefit from inclusion of marginal transmission losses in SCED, such a policy would appear to simply institutionalize a wealth transfer between market participants without really contributing to long-term resource adequacy.

Perhaps the most unsettling long-term consequences of including marginal transmission losses in SCED would be to impose persistent price increases in some regions of the state[4] while simultaneously imposing persistent generation pricing disadvantages upon all public power entities serving local load with local resources that happen to be geographically distant from an administratively-created "reference bus."[5]

---

[2] Celebi, Martin; Tsuchida, Bruce; *et al* (The Brattle Group), *Impacts of Marginal Loss Implementation in ERCOT: 2018 Reference Scenario Results*, Oct. 11, 2017, p.3. Filed in PUCT Project No. 47199. Due to the high penetration of very low marginal cost renewable generation in ERCOT, Brattle's modeling showed inclusion of marginal losses reducing system production costs only 0.13% per year and reducing system-wide load inclusive of losses by only 0.27% per year. In Public Citizen's view, these are immaterial changes.

[3] PA Consulting Group, *The Long-Term Impact of Marginal Losses on Texas Electric Retail Customers*, April 2018, p. 15. Filed in PUCT Project No. 47199. PA Consulting studied the impact of marginal losses on future generation resource development and siting, finding "no projected difference in combined cycle development" between the base case and the marginal losses case.

[4] Texas Industrial Energy Consumers, *Reply Comments*, PUCT Project No. 47199, Dec. 22, 2017, p. 8. "In particular, TIEC does not believe it is a prudent course of action to impose a perpetual price increase on critical economic regions of the state (such as Houston) based on inherent limitations to local generation development (such as environmental and siting restrictions)." (Parentheses in original.)

[5] South Texas Electric Cooperative, *Comments*, PUCT Project No. 47199, Sep. 29, 2017, p. 6. "The ERCOT market is largely a bilateral market. Transactions in the market do not seek to serve a center of load but rather particular nodes on the system. STEC's load is close to its generation, therefore STEC's actions in the market largely reduce the overall amount of losses. However, because STEC's transactions will be compared to a fictional 'center of load' at which STEC neither generates nor consumes, STEC will not see a direct benefit from the actions it takes that increase efficiency in the market when moving from the current system of socialized losses to marginal losses."

Question 3: What are the effects on retail customers and the retail market from the implementation of marginal transmission losses?

Given the various lengths of underlying contracts between the various types of load-serving entities and their respective retail customers, it is difficult to assess the effects of such a significant policy change. ERCOT's analysis of marginal transmission losses impacts demonstrates that consumer savings are unequally distributed and, in the case of the Houston Zone, consumer prices actually rise.[6]

Question 13: Assuming the Commission decided to go forward with implementation of marginal transmission losses, what are the key issues related to determining the appropriate treatment and allocation of the marginal loss surplus revenues?

The fact that marginal losses will always necessarily be over-collected is, in and of itself, a reason to pause before pursuing this policy proposal further. Why would the Commission bother to construct a mechanism that, by its very nature, will be inaccurate and for which the allocation of excess revenues will, by its very nature, be somewhat arbitrary? The over-collection problem is a mathematical certainty but how to unwind the damage is a policy headache. Over-collection exists because certain generators were over-penalized in the marginal losses calculation. However, certain loads were also harmed by over-paying for energy. The extensive litigation in other jurisdiction over the allocation of marginal losses overcollection should be a clear signal to the Commission that there is no good answer to this question and there is likely no way to implement this policy in ERCOT without causing undue harm to multiple market participants or pitting the economic interests of one region of the state against another.

CONCLUSION

Public Citizen appreciates the opportunity to comment in this proceeding and recommends the Commission reject calls to include marginal losses in SCED.

Respectfully,

Adrian Shelley
Director, Public Citizen's Texas Office

[6] Electric Reliability Council of Texas, *Study of the System Benefits of Including Marginal Losses in Security-Constrained Economic Dispatch*, PUCT Project No. 47199, June 29, 2018, p.4.