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PROJECT NO. 48540

REVIEW OF REAL-TIME CO-  
OPTIMIZATION IN THE ERCOT  
MARKET

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PUBLIC UTILITY COMMISSION  
OF TEXAS  
FILING CLERK

**REPLY COMMENTS OF TEXAS ELECTRIC COOPERATIVES, INC.**

Texas Electric Cooperatives, Inc. (TEC) provides these reply comments to address certain initial comments filed in this Project. TEC appreciates the Commission’s careful consideration of Real-Time Co-optimization (RTC) and reiterates its support for the efficiencies and operational flexibility achieved by the implementation of RTC in the Electric Reliability Council of Texas (ERCOT) power region.

As outlined below, TEC generally agrees with initial comments that promote consistency with current market expectations and disagrees with comments that introduce unneeded complexity or diminish the benefits expected under RTC.

**I. RTC should be designed to maintain consistency with long-run expectations**

As described in TEC’s initial comments, the critical parameters of the RTC design should be determined in a manner that replicates the long-run outcomes associated with the Commission’s resource adequacy objectives.<sup>1</sup> Because RTC creates efficiencies that may reduce revenue in some circumstances, the Commission should be mindful that the design maintains appropriate economic incentives and supports an adequate reserve margin in Texas. To achieve this outcome, the key inputs under RTC should be set to correspond with the anticipated reserve margin as it relates to the current market design. TEC agrees with the variety of parties that endorsed this approach in their initial comments.<sup>2</sup>

<sup>1</sup> Initial Comments of Texas Electric Cooperatives, Inc. at 2-3 (Apr. 15, 2019).

<sup>2</sup> See e.g., Comments of the Solar Energy Industries Association and The Texas Solar Power Association at 6 (Apr. 15, 2019) (SEIA/TSPA Comments); Initial Comments of the Lower Colorado River Authority at 1-2 (Apr. 15, 2019); Joint REP Group Response of Texas Energy Association for Marketers at 2 (Apr. 15, 2019) (REP Group Comments); Initial Comments of Texas Competitive Power Advocates at 2-4 (Apr. 15, 2019) (TCPA Comments); South Texas Electric Cooperative, Inc.’s Initial Comments at 11 (Apr. 15, 2019) (STEC Comments).

In contrast, Texas Industrial Energy Consumers (TIEC) recommended in its initial comments that the Commission institute Ancillary Service Demand Curves (ASDCs) that depart from the market expectations produced by the Operating Reserve Demand Curve (ORDC) as currently established.<sup>3</sup> As recently as the January 17, 2019 Open Meeting, the Commission gave clear direction on the shape of the ORDC, approving a modification to the inputs with the goal of encouraging demand response, promoting the retention of existing generation, and incenting new generation.<sup>4</sup> TEC urges the Commission to reject TIEC's proposal and to instead establish RTC parameters that support consistency in long-run market outcomes, reflecting the expectations set by the recent adjustments to the ORDC.

As noted in TEC's initial comments, the shape of the ASDCs and the interaction of variables such as the System-Wide Offer Cap (SWOC), the Value of Lost Load (VOLL), and the Power Balance Penalty Curve (PBPC) will drive short-term and long-run fundamentals in the ERCOT market. While TEC supports the expeditious implementation of RTC, TEC recommends the Commission engage in analysis to determine the appropriate values for these parameters, with the aim of supporting resource adequacy and accurately valuing the reliability contribution of each operating reserve.

Further study of the effect of the Commission's selected parameters will support a design that maintains consistency with current expectations. Similarly, retaining the "small fish" exemption under the RTC construct will promote outcomes that better correspond with the Commission's supply adequacy preferences. TEC thus disagrees with comments that advocate for eliminating the "small fish" provision from the Commission's Rules.<sup>5</sup> This exemption allows generation owners with a relatively small share of the market to submit offers that set a high price when they are marginal. While the ORDC, to an extent, decouples pricing outcomes from offers during scarcity, generator offers still play an important role in determining real-time prices, and the Commission should not solely rely on administrative methods to set prices in these conditions.

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<sup>3</sup> Texas Industrial Energy Consumers' Initial Comments at 6 (Apr. 15, 2019).

<sup>4</sup> *Review of Summer 2018 ERCOT Market Performance*, Project No. 48551, Memorandum from Chairman DeAnn T. Walker (Jan. 17, 2019).

<sup>5</sup> ERCOT Steel Mills' Joint Comments at 7 (Apr. 15, 2019); Initial Comments of Potomac Economics at 6-7 (Apr. 15, 2019) (IMM Comments); SEIA/TSPA Comments at 8.

The “small fish” provision should be viewed as a market-based component of the Commission’s scarcity pricing regime, and TEC sees no compelling reason to revisit its application.

## **II. Unrelated market design changes should not be considered in the implementation of RTC**

RTC is a highly complex initiative that will require the substantial focus of ERCOT, market participants, the Independent Market Monitor (IMM), and the Commission. The RTC timeline is lengthy, and the implementation cost is high. The Commission should therefore avoid introducing additional complexity by considering unnecessary and unrelated market design changes in this Project.<sup>6</sup>

The RTC Project is not an appropriate vehicle for review of concepts such as the Multi-Interval Real-Time Market (MIRTM) or “Loads in SCED.” Recommendations to evaluate the accuracy of Current Operating Plan (COP) data are also beyond the scope of this Project.<sup>7</sup> To ensure that RTC is implemented on schedule, TEC recommends the Commission simplify, rather than complicate, its decision-making process by focusing on the issue at hand.

To that end, TEC agrees with the initial comments suggesting that the current set of Ancillary Services (AS), as modified by Nodal Protocol Revision Request (NPRR) 863, be applied in determining the ASDCs.<sup>8</sup> Applying this set of AS in developing the ASDCs is a simplifying assumption that will support the timely implementation of RTC.

While certain proposals to adjust the suite of AS may have merit, they should be reviewed more fully when the need arises.<sup>9</sup> As the ERCOT system evolves over time, new or different AS may be necessary to support reliability. The ability to introduce changes to the AS may provide value in this context, and TEC thus recommends that the RTC construct include the current set of AS but that it be configured with the ability to make changes to the AS product set as needed.

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<sup>6</sup> AEMA-Texas Initial Comments at 4-6 (Apr. 15, 2019).

<sup>7</sup> ERCOT Steel Mills’ Joint Comments at 7.

<sup>8</sup> ERCOT’s Response to Commission’s Request for Comments at 3 (Apr. 15, 2019); REP Group Comments at 2; STEC Comments at 5.

<sup>9</sup> Comments of Siddiqi, Baldick, and Garcia at 2 (Apr. 17, 2019) (recommending the introduction of an inertial response service).

### **III. The Day-Ahead Market (DAM) should be financial only**

TEC agrees with initial comments recommending that the DAM be financial only.<sup>10</sup> Enabling virtual offers in the RTC construct would allow ERCOT to optimally reallocate energy and AS in real-time, which is central to the benefits produced under RTC. TEC thus disputes the proposals set forth by certain parties suggesting that offers in the DAM be associated with fixed physical obligations.<sup>11</sup> Requiring generators to carry day-ahead offers into real-time would remove the ability of resource owners to respond to market economics, increase risk, and undermine the flexibility inherent in the RTC design. This proposal would dilute the economic efficiencies otherwise gained through RTC without an apparent corresponding benefit, and TEC recommends the Commission reject it.

### **IV. Conclusion**

As discussed in these comments, TEC suggests the Commission facilitate the implementation of RTC by simplifying certain assumptions related to the design and by adhering to elements of the current market that have proven effective. This approach would include promulgating the current set of AS and the “small fish” exemption, while avoiding the introduction of unrelated proposals such as MIRTM. The Commission should also establish design principles that maintain consistency with the Commission’s resource adequacy objectives. Finally, the Commission should allow RTC to deliver its full benefits by enabling financial-only offers in the DAM.

TEC thanks the Commission for consideration of its reply comments and looks forward to providing additional input as the process moves forward.

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<sup>10</sup> IMM Comments at 5; TCPA Comments at 11; STEC Comments at 7-8; SEIA/TSPA Comments at 6-7; REP Group Comments at 3.

<sup>11</sup> Steel Mills’ Joint Comments at 6.

Dated: April 25, 2019

Respectfully submitted,

A handwritten signature in cursive script that reads "Julia Harvey". The signature is written in black ink and is positioned above a solid horizontal line.

Julia Harvey  
Director, Regulatory Affairs  
Texas Electric Cooperatives, Inc.  
1122 Colorado Street, 24<sup>th</sup> Floor  
Austin, TX 78701  
(512) 486-6220  
jharvey@texas-ec.org