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RULEMAKING PROCEEDING TO §
AMEND 16 TAC §25.505, RELATING §
TO RESOURCE ADEQUACY IN THE §
ELECTRIC RELIABILITY COUNCIL §
OF TEXAS POWER REGION §

PUBLIC UTILITY COMMISSION
OF TEXAS

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TEXAS INDUSTRIAL ENERGY CONSUMERS' INITIAL COMMENTS

I. INTRODUCTION

Texas Industrial Energy Consumers (TIEC) submits these comments in response to the PUC’s request for comments on amending § 25.505 and the repeal of §25.508. TIEC appreciates the Commission’s attention to resource adequacy in the Electric Reliability Council of Texas (ERCOT) and generally does not take issue with the proposed changes to the existing rule. TIEC has an additional suggestion for the Commission to consider, discussed below.

II. RESPONSE TO COMMISSION’S PROPOSED AMENDMENTS

As TIEC has stated in numerous forums over the years, Peaker Net Margin (PNM) is not a meaningful indicator of generator revenues. Specifically, PNM fails to account for revenues from the Day Ahead Market (DAM) or other forward bilateral contracts. The *risk* of high prices causes retail electric providers, generators, and end-use customers to contract forward at elevated prices. This behavior is probably the most meaningful contributor to generator revenues and is not reflected in Real-Time Market pricing or, correspondingly, PNM calculations. For these reasons, relying on PNM to assess the health of the market is a flawed approach.

Nonetheless, TIEC appreciates the Commission’s revisions to the rule to better calculate PNM, even if it is a poor metric overall. The proposed rule updates the Peaking Operating Cost (POC) to “10 times the natural gas price index value determined by ERCOT.”^{1,2} Allowing the PNM calculation to incorporate lower gas price indexes, such as Waha, will better reflect the actual costs of peaking units that rely on trading hubs other than Houston Ship Channel. In turn, reducing

¹ *Rulemaking Proceeding To Amend 16 TAC §25.505, Relating To Resource Adequacy In The Electric Reliability Council Of Texas Power Region*, Proj. No.48721, Proposal for Publication of Amendments to §25.505 and Repeal of §25.508 As Approved at the December 20, 2018 Open Meeting at 17 (Jan. 3, 2019).

² For clarity, please note that the heat rate of “10” is expressed as 10 MMBtu per MWh.

POC to better reflect actual costs will *increase* the calculation of PNM revenues. While PNM is a faulty metric, if it is retained then the most accurate information available should be used.

To that end, TIEC suggests that the Commission also consider reducing the current multiplier of “10” used in the POC formula. When the PUC first adopted this multiplier, it was meant to be “consistent with the heat rate that would be expected from a *new* peaking generating facility.”³ The PUC rejected arguments that the heat rate should be increased to be more in line with the heat rates of older peaking units currently operating in ERCOT (their heat rate being an average of 11.7 MMBtu/MWh) and declined to include other short-run marginal costs.⁴ The POC calculation has not been updated in over a decade, since the rule was adopted in 2006.⁵ Plants have become more efficient and average heat rates for new gas generators have declined measurably since that time.⁶ TIEC understands that new peaking technologies have heat rates around 8 MMBtu/MWh⁷ and would recommend updating the multiplier to reflect this improvement. In addition, the Commission may want to consider adding language to the rule that requires the heat rate to be updated annually based on the latest available heat rates, to avoid having to amend the rule each time technologies advance and become more efficient.

III. RESPONSE TO COMMISSION QUESTION

The Commission also requested comment on whether the Low System-Wide Offer Cap (LCAP) should be eliminated altogether instead of making updates to the values used to calculate it. TIEC has stated in the past that it does not view the LCAP as particularly useful or meaningful. The pricing that would be required to trigger the LCAP is extreme and customers would receive little meaningful protection from instituting the LCAP if Real-Time Market revenues have exceed

³ *Rulemaking on Wholesale Electric Market Power and Resource Adequacy in the ERCOT Power Region*, Proj. No. 31972. Order Adopting Amendment to §25.502, New §25.504 and New §25.505 as Approved at the August 10, 2006, Open Meeting at 118. (Aug. 24, 2006) (agreeing with Project No. 31972, Reply Comments of the Alliance for Retail Markets on the Proposal for Publication at 9 (Apr. 24, 2006).) (emphasis added)

⁴ *Id.*

⁵ *Id.* at 146.

⁶ *See, e.g.*, U.S. Energy Information Administration (EIA). Table 8.1. Average Operating Heat Rate for Selected Energy Sources, 2007 through 2017 (Btu per kWh). Accessed on Jan. 28, 2019. https://www.eia.gov/electricity/annual/html/epa_08_01.html

⁷ *See, e.g.*, Siemens. SGT5-9000HL heavy-duty gas turbine (50Hz). Accessed on Feb. 11, 2019. <https://new.siemens.com/global/en/products/energy/power-generation/gas-turbines/sgt5-9000hl.html> (“Simple Cycle Power Generation” Tab showing a heat rate of 7,972 Btu/kWh).

the PNM estimate by three times in a single year. This would almost certainly demonstrate that current scarcity pricing mechanisms are far too aggressive, and the Commission should initiate a more holistic reassessment of these administrative features based on first principles and proven economics. In addition, TIEC has previously expressed concerns about practical effect of suppressing scarcity pricing signals in the Real-Time Market and dramatically changing market dynamics mid-year. This could create incentives for market participants to behave in ways that are detrimental to reliability even when reliability issues still exist. As a result, TIEC does not believe the LCAP is a very useful protection. Simply put, the LCAP is no substitute for good market design.

While TIEC does not believe the LCAP is the optimal customer protection against sustained, potentially unjustified high prices, it is still the only “circuit breaker” in the scarcity pricing rule. All other markets have some similar feature to suspend scarcity pricing under extreme conditions. While imperfect, the LCAP is better than no protection at all and should be retained at this time.

III. CONCLUSION

TIEC appreciates the opportunity to provide these comments and looks forward to continuing to work with Commission Staff and other parties as this project moves forward.

Respectfully submitted,

THOMPSON & KNIGHT LLP

A handwritten signature in black ink, appearing to read "Phillip G. Oldham", is written over a horizontal line.

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