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PUC PROJECT NO. 51812



ISSUES RELATED TO THE STATE OF  
DISASTER FOR THE FEBRUARY 2021  
WINTER WEATHER EVENT

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PUBLIC UTILITY COMMISSION  
OF TEXAS

**TEXGEN POWER, LLC'S COMMENTS REGARDING  
REPRICING RECOMMENDATIONS**

TO THE HONORABLE CHAIRMAN OF THE PUBLIC UTILITY COMMISSION OF TEXAS:

TexGen Power, LLC ("TexGen")<sup>1</sup> provides these comments to respond to various recommendations that the PUCT and ERCOT change the real-time prices for February 18-19, 2021.

TexGen would like to stress three main points:

1. The IMM's estimate of \$16 billion in additional costs<sup>2</sup> to the market is being mischaracterized. Correcting this alleged "error" will not result in the \$16 billion being returned to customers.
2. Repricing could leave market participants with no way to recover the exorbitant and excessive fuel costs incurred in support of the Texas electric grid during a declared emergency.
3. The proposed repricing will not occur in a vacuum and will likely have severe negative impacts on the future viability and security of the Texas electric grid.

**I. The \$16 Billion**

The IMM noted in its March 4, 2021 letter that the decision from ERCOT to continue to ensure high prices on February 18 and the morning of February 19 resulted in "\$16 billion in additional costs to ERCOT's market." This statement has been misinterpreted to suggest that consumers were overcharged by \$16 billion. But the pricing that existed during the winter storm did not result in any additional charges on most retail customer's bills, and these customers did not incur an additional \$16 billion in cost on February 18th and 19th, 2021. Likewise, retail customers will not see \$16 billion returned to them if repricing is conducted. The IMM's estimated \$16 billion number does not represent the costs borne by consumers, but rather reflects an estimated amount of money that was transferred by and among generators, retail electric providers, traders, marketers, natural gas

<sup>1</sup> TexGen owns over 2,000 MW of gas-fired generation in ERCOT.

<sup>2</sup> See Doc No. 61 (PUCT Project No. 512812) (Letter from Potomac Economics to Texas Public Utility Commission) (March 4, 2021).

suppliers/transporters, and other sophisticated market participants depending on each of their market positions and activities during the event.

As the IMM indicated in its comments at the February 24, 2021 ERCOT Board of Directors Meeting:

“What our preliminary data shows is that there’s all types of entities on the profit side, and all types of entities on the loss side . . . [I]t is important not to assume that just because you were a generation company that you will necessarily have a large profit out of this event. And similarly if you’re a load serving entity that you will have a large loss. It is very situation- and entity-specific. And again we see all types—marketers as well—on both the profit side and the loss side.”

In other words, some market participants had good or even exceptional financial results. Some market participants had poor or even catastrophic financial results. But the proposed retroactive repricing will not result in a return of \$16 billion to retail consumers. Instead, it will simply pick winners and losers from among the sophisticated market participants impacted by the event. While it is reasonable and appropriate to debate and develop *prospective* changes to ERCOT processes and market design, it is not reasonable to retroactively change the rules that all market participants relied on because some market participants experienced unfavorable results.

**II. Repricing Could Leave Market Participants With No Way to Recover the Exorbitant and Excessive Fuel Costs Incurred in Support of the Texas Electric Grid During a Declared Emergency.**

TexGen would also like to stress that all market participants relied on clear communications from ERCOT and the PUCT regarding the need for generation to remain online for the duration of the ERCOT-declared emergency event. For example, generators procured necessary fuel supplies at extraordinarily high costs in reliance on directives from ERCOT (as well as the ERCOT protocols governing EEA conditions) that all available generators needed to be online. In the absence of the PUCT’s directive and ERCOT’s market announcements, generators would have been faced with potentially massive losses incurred by running their plants. They would rationally have decided to not procure/schedule fuel and to not keep the generation units online. In reality, generators kept units online in reliance on the directives from ERCOT and the PUCT regarding emergency conditions, including specifically the expectation that the astronomically high price of fuel could be recovered

in the market. Changing the rules and pricing retroactively would create a situation where generators were (i) effectively directed to procure excessively high-cost fuel in order to be online during the emergency, but (ii) left with potentially no way to recover those exorbitant fuel costs once that pricing evaporates retroactively.<sup>3</sup>

### **III. Repricing Will Have Severe Unintended Consequences**

Many market participants actively hedged their risk associated with the winter event, including specifically through hedging/selling/buying power on ICE and other market exchanges. These responsible actions will prove wholly ineffective when, for example, ICE cannot or does not resettle pricing to match any changes made by ERCOT, thus resulting in massive losses for market participants and a fundamental undermining of the financial and physical marketplace. More importantly, such a dramatic action threatens the continued viability of market exchanges for Texas/ERCOT products and the ability of market participants (including load serving entities and generation entities) to hedge their exposure for years to come. This potential destruction of key secondary markets would have significant ramifications for the future energy security of the state and likely severely curtail future investment in the Texas electricity grid.

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For the reasons stated above, as well as others that have been raised in this docket, TexGen believes that the Commission's original sentiment around repricing, as articulated in the March 5th open meeting,<sup>4</sup> is correct and should be sustained.

Respectfully submitted,

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<sup>3</sup> TexGen notes that any effort to reprice the energy would also need to recognize that the locational margin price of energy would certainly have been higher than what was observed on February 18<sup>th</sup> and 19<sup>th</sup>. The differences would result from factors such as (i) the fact that generators would have likely shut down in the face of massively negative spark pricing conditions during the time, and (ii) that in such a scenario where units would have likely received Reliability Unit Commitments, the settlement price would have changed to reflect the volume of capacity that had been RUC'd and the requisite real-time offer curves resulting from the RUC.

<sup>4</sup> See comments of A. D'Andrea ("Decisions were made about these prices in real-time based on information that was available to everyone—to all market participants—and they did all sorts of things that they wouldn't have done if the prices were different.").