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PROJECT NO. 51871

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REVIEW OF THE ERCOT SCARCITY
PRICING MECHANISM

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REPLY COMMENTS OF TEXAS ELECTRIC COOPERATIVES, INC.

Texas Electric Cooperatives, Inc. (TEC) respectfully submits these reply comments addressing certain aspects of initial comments filed by parties in Project No. 51871 on March 19, 2021. TEC is the statewide association of electric cooperatives operating in Texas, representing its members except as their interests may be separately represented.¹

In initial comments, TEC asked the Commission to amend 16 TAC § 25.505(g) to ensure the low system-wide offer cap (LCAP) does not exceed the high system-wide offer cap (HCAP) in cases of excessive fuel costs, and TEC generally agrees with comments that propose rule modifications to achieve this outcome.² TEC also recommended an event-based scarcity pricing framework wherein the HCAP is retained after an emergency event concludes (as opposed to potentially being replaced by the LCAP for the calendar year), and TEC notes that other parties proposed a similar concept.³ Maintaining an offer cap at the HCAP throughout the calendar year

¹ TEC's 75 members include distribution cooperatives that provide retail electric utility service to approximately 4,000,000 consumers in statutorily authorized service areas that encompass more than half of the total area of the state. TEC's G&T members generally acquire generation resources and power supply for their member distribution cooperatives and deliver electricity to them at wholesale.

² Calpine Corporation Initial Comments Regarding the Staff Questions at 3 (Mar. 19, 2021); Texas Public Power Association's Initial Comments Regarding the Review of the ERCOT Scarcity Pricing Mechanism at 4 (Mar. 19, 2021); South Texas Electric Cooperative, Inc.'s Initial Comments to Commission Questions on the Low System-Wide Offer Cap at 3 (Mar. 19, 2021); Texas Solar Power Association's Comments at 2 (Mar. 19, 2021).

³ South Texas Electric Cooperative, Inc.'s Initial Comments to Commission Questions on the Low System-Wide Offer Cap at 4 (Mar. 19, 2021); Texas Industrial Energy Consumers' Initial Comments on the Low System-Wide Offer Cap at 2 (Mar. 19, 2021).

would preserve the performance incentives needed to support reliability during scarcity events. These infrequent, high-cost events comprise the fundamental basis for generation investment under the energy-only market design, and absent other structural changes, the HCAP should be retained to support appropriate short- and long-term outcomes.⁴

Although an event-based scarcity pricing mechanism (SPM) could provide operational and resource adequacy benefits, TEC recognizes that changes to the SPM should be carefully evaluated in the context of a broader holistic review that considers other potential changes to the design. TEC agrees with parties that ask the Commission not to make significant changes to the SPM without further engaging with stakeholders and experts to better understand the consequences.⁵

While TEC recommends the Commission undertake a broader review of the SPM, as emphasized in initial comments TEC urges the Commission to clarify to the market its intent regarding the offer cap in place for Summer 2021 as soon as possible. Should the Commission amend its rules to address an immediate need to modify the offer cap, TEC asks that other changes to the SPM be evaluated in a more deliberative rulemaking project in which parties may thoroughly evaluate alternatives.

TEC appreciates the opportunity to submit these reply comments and thanks the Commission for its consideration.

⁴ *Estimation of the Market Equilibrium and Economically Optimal Reserve Margins for the ERCOT Region for 2024*, Astrape Consulting at 5 (Jan. 15, 2021) (In ERCOT, the reserve margin is ultimately determined by suppliers' costs and willingness to invest based on market prices, where prices are determined by market fundamentals and by the administratively-determined Operating Reserve Demand Curve (ORDC) during tight market conditions).

⁵ Calpine Corporation Initial Comments Regarding the Staff Questions at 2 (Mar. 19, 2021); Texas Public Power Association's Initial Comments Regarding the Review of the ERCOT Scarcity Pricing Mechanism at 6 (Mar. 19, 2021); NRG Energy, Inc. Response to Request for Comments on the Low System-Wide Offer Cap at 2 (Mar. 19, 2021); Vistra's Comments in Response to March 8, 2021 Staff Request for Comments at 1 (Mar. 19, 2021); Comments of Exelon Generation Company at 3 (Mar. 19, 2021); TCPA Response to the Commission Request for Comments on the Low System-Wide Offer Cap at 2 (Mar. 19, 2021).

Dated: March 26, 2021

Respectfully submitted,

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

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