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PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY PRICING MECHANISM	§ § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

TEXAS COMPETITIVE POWER ADVOCATES (TCPA) COMMENTS

Texas Competitive Power Advocates (TCPA) is a trade association representing power generation companies and wholesale power marketers with investments in Texas and the Electric Reliability Council of Texas (ERCOT) wholesale electric market. TCPA members and their affiliates provide a wide range of important market functions and services in ERCOT, including the development, operation, and management of power generation assets, the scheduling and marketing of power, the provision of energy management services and the sales of competitive electric service to consumers. TCPA members provide more than sixty percent (60%) of the total net operable electric generating capacity in ERCOT, representing billions of dollars of investment in the state, and employing thousands of Texans.

TCPA appreciates the opportunity to comment on the Commission's rule proposal regarding the Low System-Wide Offer Cap (LCAP). TCPA particularly appreciates the Commission's stated intent that the instant proposal is a targeted first step in reviewing wholesale market design elements but not the end of a broader conversation on the topic. As noted in TCPA's initial informal comments in this project, the winter storm highlighted many aspects of the Texas electricity and natural gas markets that operated as implemented, but not as some expected. TCPA continues to support a thoughtful and holistic review of wholesale market design elements, including the Peaker Net Margin (PNM) and LCAP construct. As such, TCPA reserves the right to take different position(s) in future rulemakings that address these market parameters.

TCPA offers two general comments: (1) as part of the holistic review, recovery of costs in excess of market revenues should not be strictly limited to LCAP periods or to marginal costs; and (2) LCAP could continue to reflect natural gas index prices.

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I. Recovery of costs in excess of market revenues should not be strictly limited to LCAP periods or to marginal costs.

TCPA appreciates the Commission's recognition in this proposed rule of the need to avoid a market design that could result in perverse incentives during extraordinary conditions, and conceptually supports the inclusion of proposed 16 Texas Admin. Code (TAC) § 25.505(g)(7). One of the most profound lessons of Winter Storm Uri is that weather events that threaten the natural gas system can also threaten Texas' generation fleet – just as demand for both products is growing rapidly. This dynamic can lead to extraordinary fuel and fuel delivery costs, as well as scarcity pricing signals in the ERCOT wholesale electricity market. In such extreme circumstances, generators' costs may exceed the wholesale electricity price caps, so the proposal to help keep generators whole for continuing to produce energy in such scenarios is a good policy that supports the public interest. TCPA offers a few suggestions in support of this policy objective below for the Commission's consideration.

First, the risk is not limited to when the LCAP is in effect. Numerous public reports chronicle the extraordinary delivered fuel costs for generators being borne during Winter Storm Uri, at least as high as $700/MMBtu in Texas[1] and over $1,000/MMBtu in the bordering Southwest Power Pool.[2] Indeed, the high cost of natural gas during Winter Storm Uri is one of the primary motivators for the Commission in this rulemaking, given the 50 times Fuel Index Price (FIP) alternative calculation of the LCAP under the current rule. While TCPA does not hope for a repeat of Winter Storm Uri, it is now clear that natural gas prices can reach levels that might even result in fuel costs alone exceeding the High System Wide Offer Cap (HCAP) of $9,000 per MWh. As such, TCPA suggests that as part of the holistic review of the PNM mechanism and ERCOT market design the Commission not limit proposed 16 Texas Admin. Code (TAC) § 25.505(g)(7) to only periods when the LCAP is in effect. TCPA understands the Commission's desire to settle this rulemaking quickly in time for Summer 2021. As such, TCPA offers this recommendation for

[1] *See* Vistra Corp. Business Update at p. 11 (April 26, 2021), available at: https://s21.q4cdn.com/410616722/files/doc_presentations/2021/Investor-Presentation_Business-Update_FINAL.pdf

[2] *See* https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/022521-spp-recalculates-prices-after-winter-storm-led-to-gas-power-record-highs

consideration in anticipation of a broader, more holistic review of review of wholesale market design elements.

Similarly, in extreme operating events generators regularly incur additional operating expenses that may not be strictly considered "marginal costs" – such as additional staffing, heating/cooling equipment, water treatment, chemical supplies, or backup fuel procurement. These operating costs are real and taken in support of grid reliability, but with an expectation that the market will support those prudent decisions. However, ERCOT's energy-only market design relies solely on wholesale energy revenues to provide market support, and the wholesale price caps established as part of that market design could in some extreme scenarios result in revenues falling short of costs. TCPA therefore requests that the Commission not limit proposed 16 TAC § 25.505(g)(7) to only covering "marginal costs" and instead use the more inclusive, but still reasonably limited, term "operating costs."

To be clear, TCPA is not suggesting that generators should have recourse to recover any costs at any time. Rather, the suggestion is solely to ensure that costs prudently incurred by generators to support reliability during periods of abnormal market conditions are not disincentivized by wholesale price caps. TCPA believes this is consistent with the Commission's intent, as evidenced by the use of the limiting term "an event" in the proposed rule. These "events" can happen while HCAP or LCAP are in effect, and they could range in duration from a matter of hours to multiple days. TCPA believes the Commission can delegate to ERCOT stakeholders to further define what constitutes "an event," but may wish to further modify the term to convey an expectation that the provision applies only in exceptional circumstances. Accordingly, TCPA respectfully requests the Commission to consider the following modifications to proposed 16 TAC § 25.505(g)(7):

(7) **Reimbursement for Operating Losses During an Event when the LCAP is in Effect.** During an event when the system-wide offer cap is set to the LCAP, ERCOT must reimburse resource entities for any actual ~~marginal~~ <u>operating</u> costs in excess of real-time revenues. ERCOT must utilize existing settlement processes to the extent possible to verify the resource entity's costs for reimbursement.

II. Conclusion.

TCPA appreciates the Commission's consideration of these comments and requests that the Commission:

- Modify proposed 16 TAC § 25.505(g)(7) as proposed above to ensure consistent support for reliability-enhancing incurred costs during extraordinary market events; and

Dated: June 3, 2021

Respectfully submitted,

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