PUBLIC UTILITY COMMISSION OF TEXAS

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APPLICATION OF THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC FOR A DEBT OBLIGATION ORDER UNDER PURA CHAPTER 39, SUBCHAPTER M, AND REQUEST FOR A GOOD CAUSE EXCEPTION	§ § § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

STEVEN SCHLEIMER

ON BEHALF OF
CALPINE CORPORATION

AUGUST 12, 2021

TABLE OF CONTENTS

DIRECT TESTIMONY OF STEVEN SCHLEIMER

I. EXPERIENCE AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven Schleimer. My business address is 717 Texas Avenue, Suite 1000, Houston, Texas 77002.

Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.

A. I received the degree of Bachelor of Arts with Highest Honors in 1987 and a Masters of Science in 1988, both in Economics, from the University of California-Santa Cruz.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am Senior Vice President of Government and Regulatory Affairs of Calpine Corporation.

Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.

A. Before assuming my current position as Senior Vice President of Government and Regulatory Affairs for Calpine Corporation 2014, I served as Vice President of Government and Regulatory Affairs for Calpine's North Region from 2010-2014. From 2006 to 2010, I was Vice President at Barclays Capital in New York and was responsible for electricity and environmental market regulatory issues. Prior to that, I served as Calpine's Vice President of Market and Regulatory Affairs in the West Region from 2000 to 2006. I spent the first 12 years of my career at Pacific Gas and Electric Company where I held various positions.

Q. WOULD YOU PLEASE DESCRIBE CALPINE?

A. Calpine, headquartered in Houston, is America's largest generator of electricity from natural gas and geothermal resources with operations in competitive power markets. Our fleet of 76 power plants in operation or under construction represents nearly 26,000 megawatts of generation capacity. Through wholesale power operations and our retail businesses, we serve customers in 22 states, Canada and Mexico. In Texas, Calpine owns and operates 12 power plants and employs more than 1,000 people. Calpine also owns and operates retail electric providers Calpine Energy Solutions and Champion Energy Solutions, as well as qualified scheduling entities, who participate in retail and wholesale markets, serving over 168,000 residential, commercial, and industrial end-use customers throughout Texas. Calpine Energy Solutions is one of the nation's largest suppliers of power to commercial and industrial customers, while Champion Energy provides award-winning customer service to residential customers and smaller businesses in the states' competitive retail markets.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. I have testified before various regulatory agencies and the United States Congress over the past several years.

II. INTRODUCTION

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Calpine Corporation. Calpine, as a power generation company and through its QSEs, would be liable to pay the financing charges for which ERCOT seeks authority to impose through this docket.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to discuss Calpine's perspective on ERCOT's Application submitted in this docket, and to recommend certain modifications to the debt obligation order that ERCOT has proposed.

Q. ARE THE OPINIONS AND INFORMATION CONTAINED IN YOUR TESTIMONY TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

Q. PLEASE SUMMARIZE THE RESULTS OF YOUR REVIEW AND ANALYSIS.

A. Based on my review and analysis of ERCOT's Application and some of its responses to discovery requests in this proceeding, I have reached conclusions and make recommendations to the Commission on behalf of Calpine concerning the use of updated monthly settlement data to allocate default charges, ERCOT's proposed collateralization requirements, and the assessment of default charges to new wholesale market participants.

III. DESCRIPTION OF THE APPLICATION AND THE PROPOSED DEBT OBLIGATION ORDER

Q. PLEASE DESCRIBE THE APPLICATION.

A. In the Application, ERCOT has requested the issuance of a debt obligation order to finance the Default Balance, as that term is defined in Subchapter M of Chapter 39 of the Public Utility Regulatory Act (PURA). ERCOT's request for approval of a financing mechanism to finance the Default Balance is intended to mitigate the effect of Winter Storm Uri on ERCOT wholesale market participants. In PURA § 39.602(1), the Legislature defined the Default Balance to include an amount of not more than $800 million that includes only: (1) amounts owed to ERCOT by competitive wholesale market participants during the period of emergency that otherwise would be or have been uplifted to other wholesale market participants; (2) financial revenue auction receipts used by ERCOT to temporarily reduce amounts short paid to wholesale market participants related to the period of emergency; and (3) reasonable costs incurred by a state agency or ERCOT to implement the debt obligation order, including the cost of retiring or refunding existing debt. PURA § 39.602(4) defines the period of emergency as the period beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021.

Q. WHAT IS THE TOTAL AMOUNT OF FINANCING SOUGHT?

A. ERCOT seeks authorization to finance the entire $800 million amount authorized by HB 4492.

Q. FROM YOUR UNDERSTANDING, WHY DOES ERCOT SEEK TO FINANCE THIS AMOUNT?

A. HB 4492 authorizes ERCOT to finance the amount of "short pays," or defaulted obligations owed to it for settlements from the period of emergency that would otherwise be uplifted to market participants, as well as to replenish the balance of congestion revenue rights auction receipts that ERCOT utilized to pay ancillary service providers when certain market participants defaulted on their uplift obligations to ERCOT. ERCOT testifies that these amounts, along with the reasonable costs of implementing a debt obligation order for such financing, exceed $800 million.

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF ERCOT'S PROPOSED DEBT OBLIGATION ORDER.

A. If approved by the Commission, the debt obligation order sought by ERCOT will authorize ERCOT to (1) establish a debt financing mechanism to finance the Default

Balance; (2) impose nonbypassable default charges on all wholesale market participants in the ERCOT power region, except for those wholesale market participants exempted by statute from payment of default charges; and (3) remit the default charge proceeds to pay the debt obligations.

Q. WHAT IS YOUR UNDERSTANDING OF HOW ERCOT PROPOSES TO DETERMINE THE PRO RATA SHARE OF MARKET PARTICIPANTS USED FOR ALLOCATION?

A. ERCOT proposes to calculate each entity's charges based on its proportionate share on a megawatt per hour basis using the most recent month's final settlement data before the assessment of any particular month's default charges. Except for one difference, this reflects the methodology prescribed in Protocols Sec. 9.19.1(3) in effect on March 1, 2021.

Q. IS IT YOUR UNDERSTANDING THAT NEW ENTITIES BEAR RESPONSIBILITY TO PAY DEFAULT CHARGES?

A. Yes. Once they have settlement activity during a month for which the final settlement data was used to establish a month's default charges, new wholesale market participants will begin to bear responsibility to pay default charges.

Q. DO YOU KNOW HOW ERCOT PROPOSES TO ENSURE THAT WHOLESALE MARKET PARTICIPANTS THAT HAVE EXITED THE MARKET WILL PAY DEFAULT CHARGES DERIVED USING FINAL SETTLEMENT DATA FOR MONTHS IN WHICH THEY WERE ACTIVE?

A. ERCOT proposes that each entity must provide four months' collateral, amounting to four months' estimated default charges, intended to cover such exposure.

IV. DISCUSSION OF THE PROPOSED DEBT OBLIGATION ORDER

Q. BASED UPON YOUR REVIEW AND ANALYSIS, SHOULD THE COMMISSION APPROVE THE REQUESTED DEBT OBLIGATION ORDER?

A. In general, Calpine supports approval of ERCOT's requested debt obligation order. In particular, I will identify certain features of ERCOT's proposed order that are quite important in ensuring the best implementation of this financing. Before approving the request, the Commission should require ERCOT to adopt a Protocol revision ensuring that entities may not avoid default charges by exiting the market and re-entering quickly using a different form of legal entity as a new market participant.

A. Use Of Prior Months' Settlement Data

Q. DOES CALPINE SUPPORT ERCOT'S PROPOSED METHOD OF DEFAULT CHARGE ALLOCATION?

A. Calpine supports the proposed allocation, including the variable monthly default charge to wholesale market participants based on settlement activity on a monthly basis. Calpine would oppose imposition of a fixed default charge as the total Uplift Balance is subject to change based on various factors, including payments ERCOT may receive in the future by defaulted market participants. Using updated monthly settlement data, as opposed to a historic, fixed allocation also allocates the default responsibility among all those participating in the market at any particular time, ensuring that no wholesale market participant gains a competitive advantage by virtue of the time they entered the market. It also discourages gaming the market by briefly exiting the market altogether and re-entering as a new entity without a historic allocation upon which to base any future default charges.

B. Collateralization Requirements

Q. DOES ERCOT'S PROPOSED DEBT OBLIGATION ORDER ADEQUATELY ENSURE THAT WHOLESALE MARKET PARTICIPANTS WILL BE UNABLE TO AVOID THE NONBYPASSABLE DEFAULT CHARGES REQUIRED BY HB 4492 BY EXITING THE MARKET?

A. Generally yes, through the proposed four-month collateral requirement. Calpine would additionally recommend a requirement in the debt obligation order for ERCOT to timely modify its Nodal Protocols to address this issue, adding safeguards that will prevent a wholesale market participant from being able to exit the ERCOT market and re-enter to avoid paying default charges. Calpine is aware that NPRR 1067 speaks to this issue and is pending in the NPRR committee review process.

C. <u>Application of Default Charges To New Wholesale Market Participants</u>

Q. DOES CALPINE AGREE WITH ERCOT'S PROPOSAL TO IMPOSE DEFAULT CHARGES ON NEW MARKET PARTICIPANTS?

A. Yes. ERCOT's proposal to impose the default charges on new wholesale market participants through QSEs and CRR account holders is consistent with the requirements of HB 4492. It reflects the principle that all those who are participating in and benefitting from the ERCOT markets should bear their proportionate share of supporting the market's continued functioning. The default charges enable ERCOT to mitigate the short pay amounts that have prevented it from paying its obligations to ancillary services providers, thus affecting wholesale market integrity. New entrants who will conduct business in the market should have a hand in supporting those costs.

V. SUMMARY AND CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS REGARDING ERCOT'S APPLICATION.

A. The Commission should approve issuance of a debt obligation order finance the requested $800 million of default balance. The order should additionally require that ERCOT use updated monthly settlement data to allocate default charges. It should also implement ERCOT's proposed collateralization requirements and require ERCOT to timely revise its Nodal Protocols to prevent market participants from exiting the ERCOT market and re-entering to avoid default charges. The order should additionally require the assessment of default charges to new wholesale market participants.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.