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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

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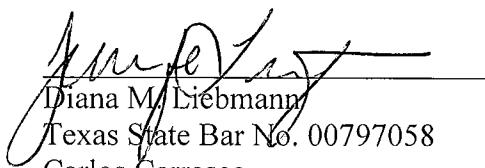
PUBLIC UTILITY COMMISSION

OF

TEXAS

POST-HEARING BRIEF OF SOUTH TEXAS ELECTRIC COOPERATIVE, INC.

South Texas Electric Cooperative, Inc. hereby timely files its Post-Hearing Brief addressing the request of the Electric Reliability Council of Texas, Inc. for approval of its Application for a Debt Obligation Order pursuant to Subchapter M of Chapter 39 of the Public Utility Regulatory Act.



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I. INTRODUCTION

On July 16, 2021, the Electric Reliability Council of Texas, Inc. (“ERCOT”) filed its Application for a Debt Obligation Order (“Application”) pursuant to Subchapter M of Chapter 39 of the Public Utility Regulatory Act (“PURA”)¹ seeking approval to securitize up to \$800 million in amounts owed to ERCOT for Winter Storm Uri related short payments. South Texas Electric Cooperative, Inc. (“STEC”) is a generation and transmission electric cooperative that provides wholesale electric power to nine member cooperatives. As a participant in the ERCOT market, STEC will be obligated to pay its pro rata share of any default charges assessed under a debt obligation order issued in this proceeding (“Debt Obligation Order”). The record evidence shows that ERCOT’s application, if approved, will further the goal set out in PURA § 39.601(c) of serving the public interest by “preserving the integrity of the electricity market in the ERCOT.” STEC hereby submits this timely filed Post-Hearing Brief recommending approval of ERCOT’s Application.

II. ARGUMENT

ERCOT has demonstrated that securitizing default costs as allowed under Subchapter M of PURA Chapter 39 is in the best interest of market participants that would otherwise be subject to default uplift payments. Securitization will provide market stability by enabling ERCOT to quickly fulfill its outstanding financial obligations to market participants that provided much needed generation services during the winter storm, as well as replenishing congestion revenue right (“CRR”) auction reserves to allow ERCOT to continue meeting its financial obligations to CRR account holders.² STEC supports ERCOT’s application and recommends that the Public Utility Commission of Texas (“PUCT” or “Commission”) issue a Debt Obligation Order in accordance with the application.

A. Allocation of Securitized Funds

STEC supports ERCOT’s proposed methodology for using securitized funds to provide financial stability in the ERCOT market.

¹ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016.

² ERCOT Ex. 2 (Direct Testimony of Kenan Ogelman) at 28:8-28:20.

ERCOT has established that it is prudent to first earmark approximately \$50 million in securitized funds to cover the unpaid balance of its existing short-term debt, including prepayment penalties, that will be needed if ERCOT is unable to obtain consent waivers from the lenders to pursue securitization financing.³ ERCOT has testified that it will seek lender waivers after the PUCT issues its final orders in the securitization proceedings to avoid the need to securitize such costs.⁴ To ensure that market participants are only responsible for necessary securitization costs, a financing order issued by the Commission should require ERCOT to use its best efforts to obtain lender waivers.

ERCOT's decision to next prioritize fully compensating market participants that were short paid by ERCOT during the February winter storm will provide the maximum benefit for stabilizing the ERCOT market.⁵ ERCOT witness Mr. Ögelman explained why compensating short paid market participants is ERCOT's highest priority, stating that there are a set of market participants that haven't been paid, but they could very well easily owe downstream costs for the energy that they produced."⁶ ERCOT witness Mr. Taylor echoed these sentiments and noted that failing to use securitization funds to first compensate market participants who provided energy services during the winter storm could harm the ERCOT wholesale market.⁷

STEC further supports ERCOT's third priority of replenishing the CRR auction account to provide market liquidity.⁸ No parties have objected to the use of securitized funds to replenish CRR auction revenue amounts attributable to competitive entities. As noted by ERCOT witness Mr. Taylor, ERCOT has thus far been able to fulfill its CRR auction revenue payment obligations but ERCOT cannot guarantee that will continue.⁹ The CRR auction reserve balance is well below the required amount, which places loads at risk of not being timely paid CRR

³ ERCOT Ex. 1 (Application) at 7.

⁴ ERCOT Ex. 10 (Rebuttal Testimony and Attachment of Sean Taylor) at 9:19-20.

⁵ See ERCOT Ex. 1 at 7.

⁶ Tr. at 92:18-21 (Ögelman Clarifying Examination) (Aug. 23, 2021).

⁷ Tr. at 92:13-15 (Taylor Clarifying Examination) (Aug. 23, 2021).

⁸ See ERCOT Ex. 1 at 7.

⁹ Tr. at 77:114-21, 15:23-25 (Taylor Cross) (Aug. 23, 2021).

auction revenues.¹⁰ Using \$179 million of the securitized funds to replenish CRR auction revenues, as recommended by ERCOT, is a prudent approach that reduces the risk that ERCOT will have to short pay the recipients of CRR auction revenues.¹¹

B. Amount of Costs to Be Securitized

ERCOT judiciously requests approval to securitize the full \$800 million allowed under Subchapter M of PURA Chapter 39, even though ERCOT anticipates securitizing a lesser amount. Specifically, ERCOT states it will securitize up to \$469 million, including funds held back for debt repayment and funds allocated to cover short pays of competitive entities, if the electric cooperatives that short paid ERCOT during the winter storm pursue securitization under Subchapter D of PURA Chapter 41.¹² ERCOT's request to securitize up to \$800 million, if necessary, is a reasonable approach that provides a safety net to protect the stability of the ERCOT market in the event that additional funds are needed to satisfy short pay obligations of market participants. If approval is limited to the approximately \$469 million currently needed to fulfill ERCOT's initial priorities, the market may be denied the full benefit of the relief contemplated in PURA Chapter 41.¹³

C. Collection of Default Charges

In accordance with PURA § 39.603(d), ERCOT proposes to calculate each market participant's share of default charges based on each entity's market activity in the preceding month.¹⁴ The assessment methodology, which requires that new market entrants take on a proportionate share of default charges, will allocate the costs among all entities participating in the market at a particular time, ensuring that no wholesale market participant gains a competitive advantage by virtue of the time they entered the market.¹⁵ ERCOT supports Intervenor recommendations that new Protocols be developed to address the various issues that will arise in the implementation of the Commission's financing order and has requested that the Commission

¹⁰ *Id.* at 77:13-21.

¹¹ ERCOT Ex. 10 at 17:7-8; Tr. at 93:12-20 (Ögelman Clarifying Examination) (Aug. 23, 2021).

¹² *See* ERCOT Ex. 10 at 6:4-6, 8:7-9.

¹³ *See id.* at 22:14; *see* Tr. at 93:24-94:13 (Ögelman Clarifying Examination) (Aug. 23, 2021).

¹⁴ ERCOT Ex. 1 at 7-8.

¹⁵ Calpine Ex. 1 (Direct Testimony of Steven Schleimer) at 5:11.

issue an order directing ERCOT to take such action.¹⁶ No parties have opposed this request and therefore, if the Commission approves ERCOT's application, the Debt Obligation Order should include specific directives for ERCOT to establish Protocols to efficiently and transparently implement the financing order.

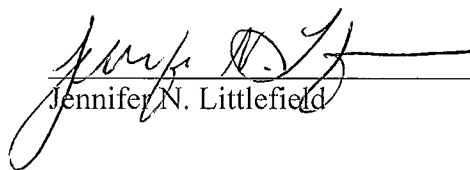
III. CONCLUSION

STEC respectfully requests that the Commission approve ERCOT's Application authorizing financing of the default balance costs. The evidence shows that ERCOT's Application is in the public interest and will allow wholesale market participants that are owed money to be paid in a timelier manner, replenish financial revenue auction receipts used by ERCOT to reduce the Winter Storm Uri related amounts short-paid to wholesale market participants, and allow the wholesale market to repay the default costs over time.

¹⁶ ERCOT Ex. 8 (Rebuttal Testimony and Attachments of Kenan Ogelman) at 9:4-6.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of this pleading was filed on the Commission Interchange website on September 1, 2021. In accordance with Order No. 4 issued in this docket on August 5, 2021, filing a document on the Commission's Interchange website constitutes service of the document on all parties to this proceeding.


Jennifer N. Littlefield