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**REVIEW OF WHOLESALE ELECTRIC  
MARKET DESIGN**

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**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**TEXAS INDUSTRIAL ENERGY CONSUMERS' COMMENTS ON  
COMMISSION DEMAND RESPONSE QUESTIONS**

**I. INTRODUCTION**

Texas Industrial Energy Consumers (TIEC) represents large customers who actively provide thousands of megawatts of demand response to the ERCOT market. TIEC's member companies help balance supply and demand in real-time by reducing their usage based on price signals, making more energy available to the market. In addition, many TIEC members provide responsive reserve service (RRS) as a Load Resource, and some also participate in the Emergency Response Service (ERS) program. TIEC strongly supports market-based demand for all customer classes as a key element of a reliable grid and a successful competitive market. In many instances, demand response is the most cost-effective way to increase operating reserves and support reliability.

Market-based demand response for residential and small commercial customers has been slower to develop for several reasons. First, smaller, less sophisticated customers are more likely to be on fixed price products where they are not exposed to real-time prices and, therefore, have no additional incentive to reduce usage when grid conditions are tight. Second, the economics of demand response for smaller customers may not as compelling as for large, energy-intensive businesses that are competing in global markets. Finally, many small customers lack the knowledge or interest to actively engage in the market, regardless of economics. Because of these factors, primary responsibility for developing demand response programs for small customers lies with retail electric providers (REPs) or other load-serving entities (LSEs), not the customers themselves. These entities must create programs that make market participation accessible and provide a value proposition for the customers.

In evaluating opportunities to expand demand response for small customers, the Commission should endeavor to limit interference with the development of competitive retail products. In particular, demand response programs offered by regulated utilities compete with and undermine the development of similar products by REPs in the competitive market. They can also

interfere with the wholesale market and cause administrative price adjustments, which should be minimized to the extent possible.

TIEC also urges the Commission to maintain the existing, successful demand response options for large customers and evaluate additional opportunities for large customers to contribute to grid reliability. There are several changes the Commission could consider to increase participation from existing resources, as discussed below.

## II. COMMENTS ON COMMISSION QUESTIONS

***Question No. 3: How should utilities' existing programs, such as those designed pursuant to 16 TAC 25.181, be modified to provide additional reliability benefits?***

***a. What current impediments or obstacles prevent these programs from reaching their full potential?***

Generally, the Commission should avoid using utility load management programs to provide additional reserves for the wholesale market. Just as introducing rate-regulated generation resources would create distortions in the competitive wholesale market, expanding demand response programs offered by rate regulated utilities to increase operating reserves will undermine market-based products and deter competitive investments. Utility load management programs were primarily designed to reduce overall energy consumption and address localized issues on the utility's systems—not to provide operating reserves in the wholesale market. The role of regulated utilities in the energy market should remain very limited, consistent with PURA's directive that "a transmission and distribution utility may not sell electricity or otherwise participate in the market for electricity except for the purpose of buying electricity to serve its own needs."<sup>1</sup>

TIEC supports removing impediments to market-based demand response from small customers, and ensuring that cost-effective demand response is being appropriately incentivized. However, this should primarily be achieved through customers' REPs or competitive third-party providers and not regulated utilities.

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<sup>1</sup> PURA § 39.105(a).

***Question No. 5: What changes should be made to non-residential load-side products, programs, or what programs should be developed to support reliability in the future?***

Existing demand response opportunities for large customers in ERCOT have been extremely successful and provide substantial reliability benefits to the market at a relatively low cost. These programs also provide opportunities for businesses to manage their energy costs by actively participating in the wholesale market, which helps Texas maintain its competitive business environment and attract economic development.

There are several ways that industrial customers participate in the market today. The simplest is through real-time price response, which means reducing usage to avoid high energy prices. The current ORDC provides strong incentives for industrials to reduce usage as operating reserves are depleted. While this price response is a valuable, market-based reliability tool, it should be incentivized in an efficient manner to avoid unintended harm to the state's economic output. Encouraging demand response through high prices when the system does not really need additional reserves will chill economic activity and undermine the state's financial objectives, so these two competing interests need to be balanced in the overall market design.

Large customers also actively participate in ancillary services. Today, Load Resources (LRs) may provide up to 60% of Responsive Reserve Service (RRS). This 60% limit was a result of the stakeholder process and is not tied to any reliability requirement. Additional megawatts from LRs could provide additional reserves to the market and improve reliability at a low cost. The Commission (and ERCOT) should evaluate whether it makes sense to remove this artificial limitation on LRs in RRS.

In addition, there are typically more megawatts available from LRs than ERCOT needs to meet current RRS requirements. These prorated LR megawatts vary, but can be as much as 5000 or 6000 MW of available resources that are not being used in the market. To the extent that the Commission seeks additional reserves to operate more conservatively than in the past, these LR megawatts could provide a cost-effective option that does not require any additional investment. These LR megawatts could be procured as additional RRS or as a separate service with different performance requirements. ERCOT also recently filed Nodal Protocol Revision Request (NPRR) 1093 to would allow some of these LRs to participate in Non-Spinning Reserve Service (NSRS), in light of the additional procurements that were implemented this summer. TIEC supports this change and believes it will alleviate some of the additional costs of NSRS that REPs and customers have recently experienced.

### III. CONCLUSION

TIEC appreciates the opportunity to weigh in on these issues and would be happy to provide any additional information on industrial demand response that would be helpful to the Commission. Demand response is a critical component of a well-functioning market and TIEC supports continuing to evaluate ways to maximize this important resource.

Respectfully submitted,

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