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PROJECT NO. 52373

**REVIEW OF WHOLESALE
ELECTRIC MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**COMMENTS OF
ENVIRONMENTAL DEFENSE FUND, TEXAS CONSUMER ASSOCIATION
& ALISON SILVERSTEIN CONSULTING**

COMES NOW the Environmental Defense Fund, a non-profit, non-partisan, non-governmental environmental organization, the Texas Consumer Association, a non-profit advocate representing small business and individual Texas customers on pocketbook issues, and Alison Silverstein, an independent energy consultant, to offer these joint-filed Comments responding to the Commission's invitation for market design proposals in Project No. 52373, the Review of Wholesale Electric Market Design.

The Commission indicated a willingness to receive parties' proposals for how to modify ERCOT's wholesale market design. Since many of these proposals will come from stakeholders advocating on behalf of their commercial interests as well as for the good of ERCOT and Texas as a whole, we write to offer principles and questions that the Commission could use to evaluate market design proposals and inform the Commission's on-going discussions and development of market design proposals and implementing rules.

The Commission will have to evaluate both market design schemes developed internally and those offered by stakeholders and stakeholder groups. Given the limited time available to the Commission to develop and evaluate these options, we believe that the principles and questions outlined below – intended to articulate key public interest market design features -- can be used to compare alternate proposals and reveal potential strengths, flaws and biases within and between market design options. Other principles and questions may also be useful.

Discussion of market design review and selection driven by clear, publicly articulated principles can illuminate the quality and consistency of market options relative to your reform goals, facilitate transparent decision-making, and avoid the appearance of bias toward more extensively-developed, well-resourced design proposals.

The Commission's challenge will not end once market design reforms are in place. The Commission will need to conduct on-going review using regular check-ins to ensure that ERCOT's wholesale market is working effectively. This will assure that we are collectively optimizing use of available resources and fairly promoting competition while protecting grid reliability, so our market can continue to reap the benefits of Texas' rich resource diversity. Particularly given rapidly changing grid conditions and climate and other threats, continual checks will protect the ERCOT market, the Commission, and all Texans.

We believe that the principles and questions outlined below – intended to articulate key public interest market design features -- can be used to compare alternate proposals and reveal potential strengths, flaws and biases within and between market design options.

Market design principles and questions

1) Competition -- The ERCOT market was designed around the ideas that Texans benefit from competitive markets and choice.

- a) Does this proposal advance competition by enabling many buyers and sellers with easy entry and exit into the market, or does it limit who can participate (as by artificial limits on load participation or barriers to customer asset aggregation and Virtual Power Plants)?
- b) Does this proposal preserve competition between supply-side options and between supply, storage and demand options?

2) Competition supports reliability – Through Locational Marginal Prices, wholesale electric markets reveal prices that reflect competition, perceived value and grid conditions (particularly

scarcity), and those prices encourage investment and operation in places and times that support reliability.

- a) Do the pricing regime and practices such as ORDC and price caps support pricing that incents investor, producer and consumer behavior consistent with reliability, operational and scarcity needs?
- b) Have market products and services been designed to address current and emerging operational and longer-term challenges such as seasonal resource needs, faster operational flexibility, and co-optimization between operational timeframes?
- c) Does the market have features and services that provide some ability and certainty for investors to make and recover costs that legitimately enhance reliable operations when needed (such as in scarcity events and black-start), as distinct from promises of future availability?
- d) If it is deemed necessary to make out-of-market exceptions for particular resources to support reliability needs, is there a transparent competitive process to select the resources that will receive out-of-market treatment and compensation? And will there be consistent treatment for out-of-market interventions (e.g., if out-of-market resources are needed in three years to reduce peak loads, and those resources will be compensated through a charges levied on all ERCOT customers, can a suite of cost-effective energy efficiency and demand response measures be selected to satisfy those needs at a lower across-the-board charge than an emergency generation reserve fleet)?
- e) Does the proposed market design enable customer and demand-side asset participation and choice to counter-balance supply, or does it primarily focus on competition between supply-side resources?
- f) Are customers able to see and respond to prices and energy use data? These don't have to be real-time LMPs, but communication and time-of-use rates help customers understand and behave in reliability-complementing ways.

3) Treat all resources fairly -- All energy & ancillary service products should be defined in functionally-based, technology-agnostic, fuel-neutral terms, and compensated for actual performance rather than promises.

- a) Are products and services defined in functional terms or do they reflect outdated assumptions based on old fossil plant capabilities?
- b) If there are participation limits on the ability of supply, demand, storage, and customer-sited assets to compete (directly or through aggregators and intermediaries) to provide a specific product or service, are those limits based on valid technical reasons?
- c) Are market products and market support infrastructures forward-looking to accommodate the changing mix and number of supply, demand and storage technologies, operational capabilities and business models?
- d) Does this treat all resources fairly without discrimination for reasons other than documentable capability or non-performance? If some resource is selected to receive special or discriminatory treatment (such as out-of-market support), is there a clear and

justifiable public interest justification for that special treatment (e.g., energy efficiency measures deliver significant reliability and societal benefits but cannot receive compensation within an energy-only market)?

- e) Does compensation for energy and ancillary services products reflect appropriate, reliability-supporting factors such as location, speed and flexibility?

4) Good competition needs adequate physical and institutional infrastructure – History has shown that the best competitive markets are built upon a foundation of adequate infrastructure (generation, transmission, storage, demand response and energy efficiency, plus sound, modern operational, data and operational infrastructure).

- a) Do we have or can we soon produce the physical infrastructure (e.g., timely transmission interconnection, removal of transmission constraints) needed to support competition?
- b) Do we have or can we soon produce the institutional infrastructure (e.g., dispatch co-optimization and customer data access) needed to support competition?

5) Good markets produce more winners than losers -- Who will benefit and who could get harmed by this proposal?

- a) How will the proposal improve system reliability and reduce system risks?
- b) How will the market design allocate risks and costs between competitors (and their shareholders) and customers?
- c) How much would the proposal increase costs to customers in order to improve system reliability and resilience?
- d) Market rules and infrastructure should spread and reduce risk to participants who can best manage it, not load all risk asymmetrically onto customers so they bear most of the costs but don't enjoy most of the benefits of others' policy, planning, financial and operational decisions.
- e) Who will gain from this market design and why? Will the most benefits flow to those who prepare and provide valuable services every day, or to those who receive preferential treatment, or to those who get lucky?
- f) Who will lose from this market design and why? If customers are going to pay more, will the increased costs be balanced by the gains that customers receive from better reliability and resilience?

6) Check-ins – how can we tell this is working, and how will we correct if it doesn't?

- a) What operational, infrastructure, reliability and other metrics are appropriate to assess whether market design measures and rules are working as desired?
- b) What occurrences or symptoms can you use to determine whether the market changes are not working, or whether you neglected to address something important?

- c) How soon and how often is it appropriate to evaluate whether the reforms are working as desired?
- d) Given that markets and investments thrive on regulatory certainty and predictability, are there any factors or circuit-breakers that might justify a reexamination of adopted market rules and practices out of the routine cadence?

Conclusion

It is our hope that the ultimate market design elements and rules that the Commission adopts will answer many of the principles and questions below in affirmative ways that advance the public interest and the well-being of all citizens in ERCOT.

We appreciate the opportunity to provide these Comments and look forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,



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Texas Consumer Association



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Alison Silverstein Consulting

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ELECTRIC MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**EXECUTIVE SUMMARY
COMMENTS OF
ENVIRONMENTAL DEFENSE FUND, TEXAS CONSUMER ASSOCIATION
& ALISON SILVERSTEIN CONSULTING**

COMES NOW the Environmental Defense Fund, a non-profit, non-partisan, non-governmental environmental organization, the Texas Consumer Association, a non-profit advocate representing small business and individual Texas customers on pocketbook issues, and Alison Silverstein, an independent energy consultant, to offer these joint-filed Comments responding to the Commission's invitation for market design proposals in Project No. 52373, the Review of Wholesale Electric Market Design.

We write to offer principles and questions that the Commission could use to evaluate market design proposals and inform the Commission's on-going discussions and development of market design proposals and implementing rules. These principles, with detailed questions for each, address the following topics:

- 1) **Competition** -- The ERCOT market was designed around the ideas that Texans benefit from competitive markets and choice.
- 2) **Competition supports reliability** – Through Locational Marginal Prices, wholesale electric markets reveal prices that reflect competition, perceived value and grid conditions (particularly scarcity), and those prices encourage investment and operation in places and times that support reliability.
- 3) **Treat all resources fairly** -- All energy & ancillary service products should be defined in functionally-based, technology-agnostic, fuel-neutral terms, and compensated for actual performance rather than promises.
- 4) **Good competition needs adequate physical and institutional infrastructure** – History has shown that the best competitive markets are built upon a foundation of adequate infrastructure (generation, transmission, storage, demand response and energy efficiency, plus sound, modern operational, data and operational infrastructure).
- 5) **Good markets produce more winners than losers** -- Who will benefit and who could get harmed by this proposal?
- 6) **Check-ins** – how can we tell this is working, and how will we correct if it doesn't?