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PUC PROJECT NO. 52268

CALENDAR YEAR 2021 – WORKSHOP § PUBLIC UTILITY COMMISSION
AGENDA ITEMS WITHOUT AN §
ASSOCIATED CONTROL NUMBER § OF TEXAS

PUC PROJECT NO. 52373

REVIEW OF WHOLESALE ELECTRIC § PUBLIC UTILITY COMMISSION
MARKET DESIGN §
§ OF TEXAS

ORSTED ONSHORE NORTH AMERICA LLC’S
WHOLESALE ELECTRIC MARKET DESIGN RECOMMENDATIONS

Orsted Onshore North America LLC (“Orsted”) appreciates this opportunity to offer recommendations in response to the memorandum issued by the Staff of the Public Utility Commission of Texas (“Staff”) on September 20, 2021. Orsted stands ready to work in collaboration with the Commission and looks forward to working with the Commission and Staff as it reviews wholesale electric market issues.

I. INTRODUCTION

Orsted is a global clean energy company with an onshore portfolio of over 4,700 megawatts (MW) of renewable energy generating assets in operation or construction, including a majority located in ERCOT, the nation’s leading market for competitive renewable energy. Orsted and its financial partners have invested over \$2.5 billion across 11 utility-scale solar, storage, and wind projects in operation and under construction in the Electric Reliability Council of Texas (“ERCOT”) market alone, representing an installed capacity of more than 1,850 MW. Our projects generate electricity that powers hundreds of thousands of homes, have created 2,000 construction and long-term operations jobs, and continue to invest hundreds of millions in tax revenue and landowner payments that benefit local communities, school districts, and help landowners keep their property in the family for future generations. As the Commission examines wholesale electric market design issues in the wake of the Winter Storm Uri outages, Orsted encourages the Commission to adopt a non-discriminatory approach to market design that fosters generation growth and investment in ERCOT and considers the potential impact that changes to market design

will have not only on the owners and operators of generation in ERCOT, but also on those who pay for power under existing power purchase contracts.

II. RECOMMENDATIONS

A. Adjustment of Operating Reserve Demand Curve Values

The Operating Reserve Demand Curve (“ORDC”) price adder was adopted as a tool to ensure that adequate operational reserves exist in ERCOT. The ORDC is intended to represent the reliability costs or risks of having a shortage of operating reserves. Subsequent to the adoption and implementation of the ORDC, stakeholders have voiced concerns that the ORDC has failed to significantly incent generation development in ERCOT.

As Public Utility Commission of Texas (“PUC”) Substantive Rule § 25.505 dictates, the value of lost load (“VOLL”) is set equal to the value of the system-wide offer cap in effect. While the current system-wide offer cap is set to the low system-wide offer cap of \$2,000 per MWh, the system-wide offer cap is automatically reset equal to the high system-wide offer cap at the beginning of each calendar year and maintained at that level until the peaker net margin exceeds a threshold of three times the cost of new entry of new generation plants. Consequently, under the existing PUC rules, the VOLL will automatically increase to \$9,000 per MWh at the beginning of 2022. Interested parties have consistently stated in their comments that setting VOLL at \$9,000 per MWh will not have a desirable result. Based on those stakeholder comments, there seems to be a consensus that reducing the VOLL from \$9,000 per MWh to approximately \$4,000-5,000/MWh for calendar-year 2022 is appropriate.

Furthermore, the level of “X” used in the ORDC formula, also referred to as the Minimum Contingency Level (“MCL”), represents a level below which ERCOT operators cease relying on the market and begin to take certain “out-of-market” actions. The value of “X” represents the level of ORDC online reserves which initiates a price at VOLL. There also appears to be support for increasing “X” to approximately 2500-3500 MW, which would sufficiently incentivize market behavior to avoid scarcity conditions and potential grid emergencies. As a result, ERCOT should study the components of the ORDC to determine the optimal VOLL, X, and standard deviation values to incentivize market behavior prior to reaching scarcity conditions.

B. Lower Rio Grande Valley Transmission Improvements

Currently, the Lower Rio Grande Valley (“LRGV”) is primarily connected to the rest of the ERCOT grid through three 345-kV long-distance transmission circuits. The LRGV is susceptible to storm-related outages and there is limited existing conventional generation capacity. This area has also seen significant growth of renewable generation and ERCOT has recently presented to the PUCT options for long-term system improvements in the LRGV. Orsted believes that the PUCT’s directives regarding necessary LRGV transmission improvements will significantly enhance the ability of the grid to accommodate both current and future generation and load while also enhancing reliability. The PUCT should also continue to evaluate additional transmission upgrades in the LRGV that are clearly needed but not able to pass through the regional planning group economic or reliability tests.

C. Continued PUCT Consideration of Necessary System Improvements

Orsted recommends that transmission service providers (“TSPs”) should endeavor to identify economic and reliability-based system transmission improvements that accommodate both current and future load growth to maximize economic efficiency. TSPs are presently discouraged in protocols to consider long term system needs, due to requirement that loads or generators provide an economic commitment (among other criteria) which tends to be one to two years before said load or generator comes online compared to transmission upgrades that can take three to six years to build. TSPs have existing cost recovery mechanisms for prudent projects, and the Commission should recognize that they can provide reliability benefits by looking at both current and future investment. The PUCT should continue the evaluation and policy discussions regarding existing direct current (“DC”) ties, (i.e. export charges), as well as future market driven DC tie lines that provide access to a large pool of generation when there is a desire for it in the market. DC tie lines also provide the ability to export low cost Texas energy to neighboring regions to the benefit of the ERCOT market. Furthermore, the PUCT should consider providing specific rules for incremental DC tie construction to eliminate regulatory uncertainty around FERC jurisdictional implications for merchant DC tie line construction.

III. CONCLUSION

Orsted appreciates the opportunity to provide the Commission and Staff with these recommendations regarding wholesale electric market issues in this matter and is available to discuss or provide additional information deemed to be helpful during the course of this proceeding.

Respectfully submitted,

/s/ Philip Moore

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EXECUTIVE SUMMARY

- ERCOT should study the components of the ORDC to determine the optimal value of lost load VOLL, X, and standard deviation values to incentivize market behavior prior to reaching scarcity conditions. Based on comments filed by interested parties, there seems to be a consensus that setting VOLL at approximately \$4,000-5,000/MWh and increasing “X” to approximately 2,500-3,500 MW would sufficiently incentivize market behavior in scarcity conditions.
- The PUCT directive and actions towards the LGRV transmission improvements is significant progress towards enhancing the grid to accommodate both current and future generation and load while enhancing reliability. The PUCT should continue to evaluate such types of upgrades that are clearly needed but not able to pass through the regional planning group economic or reliability tests.
- Continue evaluation and policy discussions regarding existing direct current DC ties, (i.e. export charges), as well as future market driven DC tie lines that provide access to a large pool of generation when there is a desire for it in the market. DC tie lines also provide the ability to export low cost Texas energy to neighboring regions to the benefit of the ERCOT market. Consider providing specific rules for incremental DC tie construction to eliminate regulatory uncertainty around FERC jurisdictional implications for merchant DC tie line construction.