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**Received - 2021-11-01 09:21:40 AM**

**Control Number - 52373**

**ItemNumber - 189**

**PROJECT NO. 52373**

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

**LUBBOCK POWER & LIGHT'S RESPONSE TO QUESTIONS REGARDING  
REVIEW OF WHOLESALE ELECTRIC MARKET DESIGN**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

The City of Lubbock, acting by and through Lubbock Power & Light (LP&L), files this Response to the memorandum posing questions for comment filed in this project by the Public Utility Commission of Texas (PUC or Commission) on October 25, 2021.

**I. EXECUTIVE SUMMARY**

See Exhibit A, attached hereto, pursuant to the Commission's Request.

**II. FACTUAL BACKGROUND**

On May 30, 2021, LP&L completed integrating part of its load from the Southwest Power Pool, Inc. (SPP) into the Electric Reliability Council of Texas (ERCOT). This partial integration process into ERCOT—which started in 2014—places LP&L in a unique position to provide comments and feedback to the Commission on questions regarding the Load Serving Entity (LSE) Obligation in particular. Consequently, LP&L has prepared the following responses to specific questions where it can provide additional value to the Commission's consideration of a potential LSE Obligation.

**III. RESPONSE TO SPECIFIC QUESTIONS**

**4. Are there alternatives to a load serving entity (LSE) Obligation that could be used to impose a firming requirement on all generation resources in ERCOT?**

Yes, there are simpler, more cost effective alternatives to imposing an LSE Obligation. For example, ERCOT could acquire reliability reserves on a forward basis. This alternative would not only be simpler and more cost effective, but it could be implemented more quickly to ensure

reliability of the ERCOT system. Vistra's Dispatchable Standby Reserves proposal or TIEC's Backup Reliability Service proposal are better alternatives than the LSE Obligation approach because ERCOT has established procedures for procuring reserves. Modifying ERCOT's current practices to procure reserves on a seasonal or forward basis should be quicker and easier to implement than an LSE Obligation system.

**6(a). Will an LSE Obligation negatively impact customer choice for consumers in the competitive retail electric market in ERCOT? Can protective measures be put in place to avoid a negative impact on customer choice? If so, please specify what measures.**

An LSE Obligation has the potential to negatively impact customer choice in ERCOT. Retail electric providers' (REPs) load serving obligations will vary through time as they acquire or lose retail customers. For REPs to meet their constantly varying LSE Obligation, it will be necessary to have a very liquid and tradable dispatchable generation market. It is unclear at this time how the Commission intends to implement a liquid and tradable dispatchable generation market that would allow REPs the flexibility to match generation to their varying load.

**6(d). What is the impact of an LSE Obligation on load-serving entities that do not offer retail choice, such as municipally owned utilities or electric cooperatives?**

One of the primary reasons LP&L departed SPP and moved a portion of its load into ERCOT was to avoid the structural complexities associated with SPP's LSE Obligation market construct.<sup>12</sup> The ERCOT energy only market was viewed as a better option for LP&L's load.<sup>3</sup> ERCOT has a very robust and liquid wholesale energy market. LP&L is able to buy Firm LD

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<sup>1</sup> See *Application Of The City Lubbock Through Lubbock Power And Light For Authority To Connect A Portion Of Its System With The Electric Reliability Council Of Texas*, Docket No. 47576, Direct Testimony of David McCalla at 21–23 (Oct. 16, 2017).

<sup>2</sup> See response to Q.16 for additional information about LP&L's experience with SPP's LSE Obligation market construct.

<sup>3</sup> Docket No. 47576, Direct Testimony of David McCalla at 24–25.

energy blocks on a forward basis to hedge its energy position. That is, LP&L is able to engage in transactions that reduce LP&L's risk and ultimately benefit LP&L ratepayers. Many participants in the ERCOT wholesale market do not participate in the SPP wholesale market, and while it is not certain what the driving force behind that is, an LSE Obligation is likely an important component of why financial institutions, for example, don't generally participate in SPP wholesale markets. The result of this lack of participation in SPP wholesale markets is that forward markets in SPP are not as liquid and robust as the ERCOT wholesale market.

**13. What is the estimated market and consumer cost impact if an LSE obligation is implemented in ERCOT? Describe the methodology used to reach the dollar amount.**

Based on capacity reserve payments that LP&L made in SPP, it is estimated that capacity reserves could be acquired at a range from \$4.00 to \$8.00 per kilowatt (kW) per month. To supplement LP&L owned generation, additional reserves of approximately 400 megawatt (MW) would be necessary to meet an LSE Obligation. Annual cost to LP&L customers would be from \$19.2 to \$38.4 million per year ( $\$4/\text{kW}\text{-mo} \times 400,000 \text{ kW} \times 12 \text{ mo.} = \$19.2 \text{ million per year}$ ). Additional costs for a typical residential retail customer would be from \$7 to \$14 per month based on 1,000 kWh per month usage ( $\$19.2\text{M}/\text{yr} \div 2.7\text{GWh}/\text{yr} \times 1,000 \text{ kWh}/\text{mo} = \$7.11/\text{mo}$ ). The addition of these unanticipated costs on LP&L ratepayers would diminish the benefits that LP&L expected to receive from moving load to ERCOT.

**16. Are there relevant "lessons learned" from the implementation of an LSE Obligation in the SPP, CAL-ISO, MISO, and Australian markets that could be applied in ERCOT?**

LP&L has recent relevant experience with the LSE Obligation market construct in SPP. LP&L's difficulty with this SPP market feature is one of the primary reasons that LP&L made the decision to move load from SPP to ERCOT.

The LSE Obligation in SPP is governed by the SPP Tariff and in multiple attachments to the Tariff (Z1, AA, AR). In general, LSEs must arrange for source-to-sink delivery of owned or contracted resources to its load. The Aggregate Transmission Service Study (ATSS) process uses power flow models to evaluate whether proposed resources can provide service to designated load points considering prior transmission service reservations of other market participants. The studies identify system constraints and develop estimates of transmission upgrade costs that are necessary to support the source-to-sink request. LSEs may be required to pay for all or a portion of transmission system upgrades necessary to facilitate the reservation. The process may take six to twelve months to complete (165 days minimum). The study length makes it difficult for market participants to contract for power on a short-term basis.

LSEs may request screening studies (Attachment AR to the SPP Tariff) to be performed to evaluate different source-to-sink options before entering the ATSS process. These screening studies require 90 days to complete, require up-front payment of estimated study costs (some of which may be refundable), and the results are not binding.

The primary lesson learned is that if the Commission elects to implement an LSE Obligation in ERCOT, avoidance of transmission studies of source-to-sink power flows is recommended to maintain a robust wholesale market. In addition, direct payment of transmission system upgrade costs by LSEs should be avoided because ERCOT's load ratio share system of allocating transmission costs has worked well.

As reported in "A Comprehensive Review of Southwest Power Pool's Response to the February 2021 Winter Storm," published July 19, 2021, despite the LSE Obligation market construct, SPP, as a whole, also experienced natural gas shortages and about 30,000 MW of generation was unavailable due to forced outages. During this weather event, SPP entered into

EEA3 and ordered load shed. SPP imported net amounts of energy exceeding 6,000 MW from adjacent RTOs that improved SPP's ability to balance resources to load. According to the 2021 SPP Resource Adequacy Report, issued June 15, 2021, "The SPP BA Area Planning Reserve Margin is 23.2% for the 2021 Summer Season and decreases to 12.7% by planning year 2026." Despite significant reserve margins, SPP experienced an EEA3 event due to the winter storm. Thus, another important lesson from this event is that an LSE Obligation—standing alone—will not guarantee reliability without other important changes that the Commission is considering.

#### **IV. CONCLUSION**

LP&L appreciates the opportunity to provide this Response to the Commission's Questions for Comment.

Respectfully Submitted,

**CITY OF LUBBOCK, ACTING BY AND  
THROUGH LUBBOCK POWER & LIGHT**

*/s/ David McCalla*

David McCalla  
Director of Electric Utilities  
Lubbock Power & Light  
1314 Avenue K, 5th Floor  
Lubbock, Texas 79401  
Phone: (806) 775-2704  
Fax: (806) 775-3112  
DMcCalla@lpandl.com

## Exhibit A

### **City of Lubbock, acting by and through Lubbock Power & Light (LP&L) Executive Summary**

- LP&L recently moved a portion of its load from the Southwest Power Pool (SPP) to the Electric Reliability Council of Texas (ERCOT) because the SPP load serving entity construct was unnecessarily difficult, time consuming, and expensive. As a result, LP&L has unique experience regarding capacity related matters and LSE Obligations.
- The Commission has options before it that are simpler, more cost effective, and can be implemented more quickly to ensure the reliability of the ERCOT system as opposed to implementing a LSE Obligation. In particular, ERCOT could modify its current practices to procure reserves on a seasonal or forward basis.
- Based on LP&L's experience in SPP, an LSE Obligation has the potential to negatively impact customer choice because of a REP's need to constantly meet a varying LSE Obligation.
- One of LP&L's primary reasons for moving a portion of its load from SPP to ERCOT was to avoid the structural complexities of SPP's LSE Obligation. In particular, the LSE construct in SPP uses an Aggregate Transmission Service Study, which uses power flow models to evaluate whether proposed resources can provide service to designated load points. The studies identify constraints and are used to develop estimates of transmission upgrade costs. LSEs may then be required to pay for all or a portion of transmission system upgrades. This process can take six to twelve months to complete. Moreover, LSEs can request screening studies even before the Aggregate Transmission Service Study process, which require ninety days to complete, require up-front payment costs for the study, and the results are non-binding.

- LP&L has learned some important lessons from its participation in the SPP market (where approximately 30% of its load currently remains). Specifically:
  1. During the February winter storm, the SPP market also experienced natural gas shortages and generation outages. SPP also entered into EEA3 and ordered load shed. Thus, despite having an LSE Obligation, SPP, as a whole, was not immune from reliability issues during the winter storm. Consequently, an LSE Obligation alone will not ensure the reliability of the ERCOT system that the Commission and State aims to achieve. Other significant changes the Commission is considering would have to be made as well.
  2. If the Commission chooses to impose an LSE Obligation, it should avoid transmission studies of source-to-sink delivery power flows to maintain a robust wholesale market. Moreover, direct payment of transmission system upgrade costs by LSEs should likewise be avoided.
  3. If the Commission imposes an LSE Obligation, there is risk that ERCOT's wholesale energy market may not be as robust and liquid. The ERCOT wholesale market has many participants that provide a variety of products. SPP, however, does not enjoy the same diversity of participants in the wholesale market, likely due, at least in part, to the LSE Obligation.