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PROJECT NO. 52373

**REVIEW OF WHOLESALE ELECTRIC
MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**HUNT ENERGY NETWORK, L.L.C.'S RESPONSE TO
COMMISSION STAFF'S OCTOBER 25, 2021 REQUEST FOR COMMENTS**

Hunt Energy Network, L.L.C. (HEN) submits the following comments in response to the Public Utility Commission of Texas (PUCT or Commission) Staff's request for comment on market design policy questions filed on October 25, 2021. Staff requests that all comments be filed by noon on November 1, 2021; therefore, these responses are timely filed.

I. GENERAL COMMENTS

Since its inception in 2002, through the energy-only construct, Texas has successfully balanced the need for low-cost energy while delivering reliable and resilient power to its customers. This foresight helped to fuel Texas' economic expansion and prosperity, driving population growth and diversifying the ERCOT resource portfolio. The evolution has been highly beneficial; however, it has also emphasized the need to re-evaluate the market structure to ensure continued reliability and resilience to customers.

HEN shares the Commission's goal of ensuring a stable and reliable electric grid for the future. HEN supports the need for a thorough and thoughtful analysis of each suggested structural modification, validating that the suggestions preserve the health and robustness of the competitive market space. As such, it is HEN's belief that the below recommendations provide a targeted, measured approach that should revive sidelined dispatchable resources and encourage the future investment of such resources.

1. The Operating Reserve Demand Curve (ORDC) should be revised to improve price signals and incentivize investment in dispatchable resources.

- a. Change the minimum contingency level (MCL) used to calculate the ORDC (i.e., the value of "X") from 2,000 MW to 3,000 MW to reflect the reliability value and need for at least 2,800 MW of Reliability Reserve Service (RRS) and 200 MW of Regulation Up Service (RUS), as recently increased by ERCOT.
- b. Elongate the ORDC (i.e., increase the standard deviation) to be consistent with ERCOT's current levels of Ancillary Service (AS) procurement (of up to 8,000 MW).
 - i. ORDC currently reflects almost no value for reserves beyond 6,000 MW whereas ERCOT's procurement of about 8,000 MW of reserves reflects significant reliability value from 6,000 MW to 8,000 MW. Without this

change, the market has no price signal to invest in or commit dispatchable resources.

- ii. HEN's recommended refinements to AS products along with appropriate modifications to the ORDC would improve payments to dispatchable resources and thereby improve the availability of market-based dispatchable resources.
 - iii. These changes also would support a reduction of the high system-wide offer cap (HCAP), should the Commission decide that lowering the HCAP to \$4,500/MWh is appropriate.
- c. HEN supports setting the value of lost load (VOLL) at a greater value than the HCAP, as also suggested in Potomac Economic's testimony.¹ HEN suggests setting the HCAP at \$4,500 per MWh and severing the link between HCAP and VOLL, keeping VOLL at \$9,000/MWh when the HCAP is in effect.²

2. Ancillary services (AS) products should be refined to allow targeted procurement and optimal assignment of resources to provide key attributes depending on system conditions.

- a. Use Non-Spinning Reserve (Non-Spin)—with corresponding modifications to the ORDC as described above—as the mechanism to ensure adequacy of dispatchable resources (i.e., Capacity / High-Availability AS / Ramping). ERCOT's current augmented procurement of Non-Spin is already pushing real-time and forward prices upward, sending the price signals the Commission seeks.
- b. Separate and optimize the use of AS intended to address Frequency versus those intended to augment Capacity.
 - i. Use Responsive Reserve Service (RRS) for frequency response only (i.e., do not release RRS to Security-Constrained Economic Dispatch (SCED) to provide additional energy).
 - ii. Procure Fast Frequency Response (FFR) service as a subset of RRS, and separate this subset of RRS from slower-responding Load Resources also providing RRS.
 - iii. Procure at least 2,800 MW of RRS at all times, an extension of ERCOT's current practice for peak hours.
 - iv. In addition to the 2,800 MW described in Recommendation 2.b.iii above, ERCOT could plan to procure about 1,400 MW of additional RRS until ERCOT Conditional Reserve Service (ECRS) is implemented, which is the additional quantity of 10-minute reserves intended to be acquired through

¹ See Project No. 52373, Potomac Economics, October Work Session: IMM Proposals (Oct. 14, 2021).

² Under current 16 Tex. Admin. Code (TAC) § 25.505(g)(6)(E), "the value of lost load will be equal to the value of the system-side offer cap in effect." HEN's recommendation would make VOLL equal to \$9,000/MWh when the HCAP is in effect.

ECRS. This additional RRS procurement likely will reduce ERCOT's current Non-Spin procurement by a similar amount.

II. RESPONSE TO MARKET DESIGN QUESTIONS

HEN understands that the Commission may determine a need for additional market reforms beyond those HEN describes above. Given the relative lack of transparency in the operations of the Texas natural gas system and the pace of needed reforms across the gas-electric interface, the Commission is left to consider transitional sub-optimal solutions in order to ensure effective power markets. HEN believes that any additional, more significant market design changes (i.e., beyond changes to the ORDC and improvements to AS products), should be implemented with caution and after thorough vetting of the proposal.

HEN offers comments in response to Questions 3 and 4, and appreciates the opportunity to do so.

Question 3: Should ERCOT develop a discrete fuel-specific reliability product for winter? If so, please describe the attributes of such a product, including procurement and verification processes.

HEN Response: At a minimum, ERCOT's current Black Start procurement should require dual fuel capability, or proof of other firm, dependable fuel supply arrangements. Onsite storage could also be relied upon in whole or in part to ensure dependable performance during an extreme weather event. For further security, as an alternative to the daily procurement of greater amounts of Non-Spin Reserves recommended above in 2.a., the Commission could order ERCOT to seasonally procure an additional amount of secure capacity, identical or similar to the Black Start procurement described above, to serve as a dispatchability product. This procurement would be an additional, distinct AS from Black Start, but ERCOT could use the existing procurement and verification processes that are used for Black Start so the new AS can be implemented more expeditiously.

Due to lack of data, it is not clear whether fuel scarcity issues during Winter Storm Uri were limited to specific geographic regions of Texas, i.e., those facilities further away from natural gas storage facilities. A geographic analysis of gas supply failures may provide additional insight into whether there is need for a more targeted, locational service offering.

Question 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?

HEN Response: Until there is more energy storage and effective demand response in ERCOT, there will be a need to compensate dependable resources (existing and new) for those periods throughout the year, notably in peak winter and peak summer, when they are needed

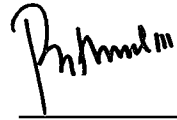
to supply power. The projected influx of more cost-effective wind and solar resources should be a welcome development, but it also means that the other plants will not be operating as often as they have been in the past. To the extent that additional capacity is needed, even for only a few days each year, those lesser-used resources should remain capable of performing (and profitable) throughout this period of transitioning to the future low-carbon grid.

The LSE Obligation is one way to commit more of the under-utilized capacity and is worthy of deeper review; however, it appears to come at a cost. HEN's initial observation is that the LSE Obligation may introduce complexities into the retail market that will inhibit the ability of retailer electric providers (REPs) to participate in the market.

First, in the competitive market, retail customer contracts typically have less than a three-year term, and customer churn can be unpredictable. Thus, not only are REPs prohibited from owning generation, but also many REPs likely do not have the collateral (i.e., long term retail service agreements) needed to finance future capacity. Second, an LSE Obligation raises significant market power concerns as most of the existing generation today is owned by companies who have affiliated REPs. Third, an LSE Obligation could increase credit requirements beyond what they are today for independent REPs, which would be detrimental to such providers. Fourth, an LSE Obligation that requires the purchase of a capacity product, along with the increased credit requirements, likely will negatively impact customer choice and create larger barriers to entry and growth. Finally, the LSE Obligation will require several administrative parameters, such as determining the volumes to be procured, the timing of procurement, the standards by which procurements will be deemed to be satisfactory (including system-wide and locational requirements), and market power mitigation rules.

Consequently, HEN suggests there may be a more surgical approach to ensure resources are online for an extreme weather event. The modifications to the ORDC and refinements to AS products should be the first steps. In addition, HEN believes that supply firming products, as described in the response to Question 3 may be needed. Appropriate tools such as these should firm up resource adequacy and allow ERCOT the flexibility to firm the supply in real time.

Respectfully submitted,



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