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PROJECT NO. 52373

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

AUSTIN ENERGY'S RESPONSE TO COMMISSION STAFF'S OCTOBER 26, 2021 REQUEST FOR COMMENT

I. Introduction

Austin Energy[1] submits these comments in response to Commission Staff's October 26, 2021 request for comment in the above-referenced project. Despite the abbreviated timeline to respond to the extensive questions, Austin Energy has worked diligently to answer the questions as comprehensively as possible; however, additional time is needed to analyze these important issues and Austin Energy reserves the right to refine its positions. Additionally, Austin Energy urges the Commission to allow additional time for an independent, unbiased consultant to evaluate all potential market redesign proposals with further opportunity for stakeholder engagement.

Austin Energy has significant reservations about the LSE Obligation and urges the Commission to take a more measured approach to market redesign. At this time, Austin Energy opposes moving forward with an LSE Obligation.

II. Responses to Questions

1. The ORDC is currently a "blended curve" based on prior Commission action. Should the ORDC be separated into separate seasonal curves again? How would this change affect operational and financial outcomes?

The Commission should operate on a principles-first basis and consider whether its original objectives in adopting these changes to the ORDC have been met;, if not, then the Commission should analyze what specific issues with the current design of the ORDC, if any, may have contributed to the widespread loss of power during Winter Storm Uri. If any market design changes are taken up, the benefits to the system should be clear, demonstrable and thoroughly analyzed by

[1] City of Austin d/b/a Austin Energy.

a third-party expert, taking into consideration the current resource mix, future resource mix and emerging technologies.[2]

Austin Energy notes that current 16 Texas Administrative Code § 25.505 ties the Value of Lost Load (VOLL) to the system-wide offer cap. The Commission has proposed lowering the value of the high system-wide offer cap (HCAP) from $9,000/MWh to $4,500/MWh, which will have the effect of lowering the ORDC revenues without other changes to the ORDC. In its comments of October 28, 2021, Austin Energy recommended that the Commission fully consider its policy objectives in tailoring the ORDC and making any other market design changes in this project.[3] In the absence of taking a holistic approach, Austin Energy supports adopting a seasonal curve which should better reflect proper loss of load probability (LOLP) parameter values that account for seasonal variability.

2. What modifications could be made to existing ancillary services to better reflect seasonal variability?

Austin Energy believes that the existing suite of ancillary services has been designed in a collaborative approach by stakeholders and ERCOT to address ERCOT's operational issues. However, in consultation with ERCOT and stakeholders, the Commission could consider differentiating seasonal and hourly variability into the Ancillary Services Methodology.

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.

As the Commission reaches the final stages of its year-end target to deliver a blueprint for market redesign, the Commission should ensure that its policy objectives are clear, and that all

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[2] At its inception, the ORDC had four seasonal curves and six time blocks, for a total of 24 curves over the course of a year. In 2018, the Commission opened a project, the scope of which included consideration of potential changes to the ORDC. As the Commission was deliberating potential changes, one Commissioner expressed concerns with the capacity, demand, and reserve (CDR) report stating that, "if the Commission implements the changes to the ORDC, there should be various responses from the entire market, such as the following: increased development of demand response, distributed generation, self-generation by customers, increased investment in generation maintenance, delays in pending generator retirements, expedited return to service of certain generating units, and additional investment in newer generation technologies that are quicker to build and more operationally flexible." Further, it was noted that the increased cost to the market of the changes made to the ORDC would help "address sinking reserve margins in ERCOT" and mitigate "the threat of power interruptions." In response, the Commission shifted the standard deviation of the loss of load probability (LOLP) by 0.25 and implemented a single blended curve (from the original 24 curves), and then implemented a second shift of the LOLP in the spring of 2020. *See* Project No. 48551, *Review of Summer 2018 ERCOT Market Performance.*

[3] *See* Project No. 52631, Austin Energy's Response to the Commission's Request for Comments on the *Review of the ERCOT Scarcity Pricing Mechanism* at 2 (October 28, 2021).

related decisions are properly framed to meet the desired policy outcomes in a cost-effective way. In its report on Winter Storm Uri, the University of Texas at Austin Energy Institute concluded that "all types of generation technologies failed," further noting that power plants "within each category of technologies (natural gas-fired power plants, coal power plants, nuclear reactors, wind generation, and solar generation facilities) failed to operate at their expected electricity generation output levels."[4] Therefore, at the outset, it does not appear that the prevalence of a specific fuel type in the ERCOT market is immediately tied to reliability outcomes. The extreme cold temperatures and winter weather experienced during Winter Storm Uri systemically impaired generation resources across fuel types and hindered timely restoration. The Commission has made a historic and decisive first step in approving its weatherization preparation rule as required by Senate Bill 3. Austin Energy believes that the Commission would be best served by a thorough analysis of the specific issues from Winter Storm Uri and a focused approach on how any proposals considered in this project might solve the actual specific operational issues that occurred.

The Commission currently has a broad suite of tools at its disposal to address operational and market design issues: the weatherization requirements of Senate Bill 3, the increased enforcement authority provided to the Commission, ancillary services, the value of the system-wide offer cap, the Emergency Response Service program, the ORDC, and the recently proposed fast tracking of the interconnection process for certain generation types. Before adding new tools, the Commission should ensure that such tools will function to ensure that all resources are properly incentivized to operate reliably and function well in the market. Increasing the complexity of how generating units operate in the ERCOT market or procuring power without first ensuring the functionality of the existing operational and market realities is unlikely to contribute to system reliability or overall market performance.

a. How long would it take to develop such a product?

Austin Energy defers to ERCOT staff on an estimation of an implementation timeline.

b. Could a similar fuel-based capability be captured by modifying existing ancillary services in the ERCOT market?

Austin Energy recommends the Commission first evaluate the functionality of the ORDC, the benefits of transitioning to real-time co-optimization and its impacts on grid reliability and

[4] University of Texas at Austin, Energy Institute Report, The Timeline and Events of the February 2021 Texas Electrical Grid Blackouts, at 9, (July 2021), available at https://energy.utexas.edu/ercot-blackout-2021.

market performance, and the functionality of the current suite of ancillary services before making further modifications to ancillary services.

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?**

Given that an obligated firming requirement could be interpreted and implemented in a variety of ways, Austin Energy would like to better understand what a firming requirement would encompass in order to better contribute to this discussion.

5. **Are there alternatives to an LSE Obligation that could address the concerns raised about the stakeholder proposals submitted to the Commission?**

The Independent Market Monitor (IMM) proposal, which would change the shape of the ORDC, may be the most practical and easily implemented proposal currently under consideration in this project. The IMM's proposal would increase VOLL, shifting away from the scarcity-constrained conditions in reflection of the Commission's stated new policy objectives. The IMM's proposal to decouple VOLL from the system-wider offer cap (SWOC) and lower the SWOC will reduce the financial impact of events like Winter Storm Uri. Austin Energy also agrees with the comments of the IMM that the implementation of real-time co-optimization in the ERCOT market should remain a top priority to improve both reliability and efficiency. [5]

Austin Energy does not have any comment on the other proposals in this project at this time and reserves its comments for a future date.

Load Serving Entity (LSE) Obligation

6. **How can an LSE Obligation be designed to protect against the abuse of market power in the wholesale and retail markets?**

Austin Energy does not operate in the Texas retail market. With respect to market power abuse in the wholesale market, Austin Energy defers to the IMM for an analysis, but believes that resolving the issue of potential market power abuse in this proposal is an appropriate avenue of investigation for the Commission to consider. Austin Energy refers the Commission to Texas Public Power Association's discussion on market manipulation risks inherent in the LSE Obligation proposal in its November 1 filed comments in this project.[6]

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[5] *See* Project No. 52373, Item No. 178, Potomac Economics' Market Redesign Proposals at 7.

[6] *See* Project No. 52373, Texas Public Power Association's Austin Energy's Response to the Commission's Request for Comments on the *Review of Wholesale Electric Market Design* at 4-5 (November 1, 2021).

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.

Austin Energy has no comment as it does not operate within Texas' retail market.

b. How can market power be effectively monitored in a market where owners of power generation also own REPs that serve a large portion of ERCOT's retail customers?

See response to Question 6a.

c. What is the impact on self-supplying large industrial consumers who will have to comply with the LSE Obligation and will it impact their decision to site in Texas?

Austin Energy has no comment at this time.

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?

The impact of an LSE Obligation on the Non-Opt-In Entities (NOIEs) will vary by each utility, its generation portfolio, the number of its customers, its market positions, and the rate of change of load growth in its service territory. Austin Energy would require additional time to perform a more detailed analysis on the LSE Obligation to its portfolio. However, on a first impression, Austin Energy believes that the proposed LSE Obligation would likely increase costs to most NOIEs and their customers. At this time, Austin Energy opposes moving forward with an LSE Obligation. Should the Commission continue to consider this option, Austin Energy urges the Commission to seek an independent third-party analysis and thorough vetting of the impacts of the LSE Obligation to all market participants to ensure that the reliability benefits are appropriately balanced with affordability for customers.

e. Can market power be monitored in the bilateral market if an LSE Obligation is implemented in ERCOT? Can protective measures be put in place to ensure that market power is effectively monitored in ERCOT with an LSE Obligation? If so, please specify what measures.

Austin Energy believes that the IMM is an appropriate party to provide a first analysis of this question and reserves further comment on this question at this time.

f. Should the LSE Obligation include a "must offer" provision? If so, how should it be structured?

The "must offer" provision is a function of the design and varies by market. Austin Energy does not believe that a "must offer" provision is necessary to an LSE Obligation, but believes that the question of whether a "must offer" provision is included in any LSE Obligation is appropriate

for the Commission's independent consultant to analyze. Austin Energy reserves further comment on the "must offer" provision at this time.

7. **How should an LSE Obligation be accurately and fairly determined for each LSE? What is the appropriate segment of time for each obligation? (Months? Weeks? 24 hour operating day? 12 hour segments? Hourly?)**

Austin Energy would require additional time to conduct a thorough and meaningful analysis to answer this question.

8. **Can the reliability needs of the system be effectively determined with an LSE Obligation? How should objective standards around the value of the reliability-providing assets be set on an on-going basis?**

Austin Energy believes that this would be an appropriate question for the Commission's independent consultant to investigate if the Commission determines that it wishes to more thoroughly consider the LSE Obligation proposal.

   a. **Are there methods of accreditation that can be implemented less administrative burden or need for oversight, while still allowing for all resources to be properly accredited?**

   See response to Question 8.

   b. **How can winter weather standards be integrated into an accreditation system?**

   See response to Question 8.

9. **How can the LSE Obligation be designed to ensure demand response resources can participate fully and at all points in time?**

Austin Energy has no comment at this time and would require more time to conduct a more detailed analysis.

10. **How will an LSE Obligation incent investment in existing and new dispatchable generation?**

Austin Energy has no comment at this time and would require more time to conduct a more detailed analysis that demonstrates that the proposal cost-effectively delivers reliability benefits that the ERCOT market needs.

11. **How will an LSE Obligation help ERCOT ensure operational reliability in the real-time market (e.g., during cold weather events or periods of time with higher than expected electricity demand and/or lower than expected generation output of all types)?**

It remains unclear whether an LSE Obligation, had it been in place before Winter Storm Uri, would have avoided or significantly mitigated the operational issues experienced in that event. The Commission should have its independent consultant perform a detailed study and analysis on the specific and targeted operational issues that need to be addressed and whether the LSE Obligation proposal is the correct and most cost-effective solution to address these issues.

12. What mechanism will ensure those receiving revenue streams for the reliability services perform adequately?

Austin Energy has no comment at this time.

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.

Austin Energy believes that this question would be appropriate for an independent consultant engaged by the Commission and the IMM to investigate. At this time, Austin Energy reserves comment on the methodology.

14. How long will the LSE Obligation plan take to implement?

Austin Energy has not conducted analysis on the implementation timeline of an LSE Obligation at this time. Austin Energy defers to ERCOT staff for an initial estimation of an implementation timeline.

15. If the Commission adopts an LSE Obligation, what assurances are necessary to ensure transparency and promote stability within retail and wholesale electric market?

Austin Energy has no comment on the retail market as it does not operate within Texas' retail market. With respect to the wholesale electric market, Austin Energy believes that this question would be appropriate for the Commission's independent consultant to analyze.

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?

Austin Energy does not have operational experience in these markets and does not have further comment on these markets at this time.

III. Conclusion

Austin Energy appreciates the opportunity to submit these comments in response to Commission Staff's request for comment filed in this project on October 26, 2021.

Dated: November 1, 2021

Respectfully submitted,

CITY OF AUSTIN D/B/A AUSTIN ENERGY

By: */s/Tammy Cooper*
Tammy Cooper
Senior Vice President & Chief Communications and Compliance Officer
Telephone: (512) 505-3901
Email: tammy.cooper@austinenergy.com

PUC Project No. 52373, *Review of Wholesale Electric Market Redesign*

EXECUTIVE SUMMARY
AUSTIN ENERGY'S RESPONSE TO COMMISSION STAFF'S OCTOBER 26, 2021 REQUEST FOR COMMENT

- Austin Energy has significant reservations about the LSE Obligation and urges the Commission to take a more measured approach to market redesign. At this time, Austin Energy opposes moving forward with an LSE Obligation.

- Austin Energy believes that the proposed LSE Obligation would likely increase costs to most NOIEs and their customers.

- The Commission should operate on a principles-first basis and consider whether the original objectives of the Commission in adopting these changes to the ORDC have been met, and if they have not been met, the Commission should analyze what specific issues with the current design of the ORDC, if any, may have contributed to the widespread loss of power during Winter Storm Uri. If any market design changes are taken up, the benefits to the system should be clear and demonstrable and thoroughly analyzed by a third-party expert taking into consideration the current resource mix, future resource mix and emerging technologies.

- The IMM proposal, which would change the shape of the ORDC, may be the most practical and easily implemented proposals of those currently under consideration in this project. The IMM's proposal would increase VOLL, shifting away from the scarcity-constrained conditions in reflection of the Commission's stated new policy objectives.