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PROJECT NO. 52373

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

EAST TEXAS ELECTRIC COOPERATIVE, INC.'S COMMENTS

East Texas Electric Cooperatives, Inc. (“ETEC”)¹ appreciates the opportunity to share these comments in response to Commission Staff’s published questions in this project.²

I. Responses to Questions

ETEC respectfully submits these brief comments limited to the questions listed below (original question numbering preserved).

As an initial matter, ETEC appreciates the importance of taking action to ensure a reliable electric market. ETEC strongly agrees we cannot have a repeat of the Winter Storm Uri event. At the same time, ETEC respectfully recommends that significant market changes—like the LSE Obligation—should be carefully studied before they are implemented. With many market changes being implemented around the same time, the total effect of these changes may be difficult to predict, and the effectiveness of any individual change impossible to calculate. Because these changes are expected to create an additional cost burden for ETEC and retail customers generally, they should be reviewed to ensure they are producing the reliability benefits at a reasonable cost. ETEC looks forward to contributing to this discussion and analysis.

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.

ETEC recommends that any new reliability product be developed in a way that targets operational characteristics rather than fuel source. This is because a resource’s ability to operate reliably in conformance with a technology neutral objective standard will provide the needed products and reliability without unintentionally excluding existing or future technologies that may

¹ ETEC is an electric generation and transmission (“G&T”) cooperative that provides G&T services to its member cooperatives, which ultimately serve approximately 340,000 member-customers in 46 counties in Texas.

² Memo Request for Comments (Oct. 25, 2021).

help provide the reliability product in a cost effective manner. For example, ETEC has contractual rights to a hydropower resource in ERCOT that, beginning sometime in 2022, will be able to operate in condensing mode and provide 10-second responsive reserve service. Because this operational characteristic is not ubiquitous among hydropower resources, it may be unintentionally excluded from offering the reliability services it can provide if fuel source (or another tangential characteristic) is used to define eligibility for offering an ancillary service product. Relatedly, ETEC's hydropower resources performed well this past February during the extreme winter weather event.

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

- 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.**

ETEC and its member cooperatives located in ERCOT are all Non-Opt-In Entities ("NOIEs") and do not participate in the competitive retail electric market in ERCOT. Thus, ETEC's comments on this question will be accordingly limited.

- 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?**

ETEC and its members located in ERCOT are electric cooperatives, NOIEs and generally contract bi-laterally for their power supply through unit-firm and partial requirements capacity and energy contracts. We expect the impacts of an LSE Obligation, if similar to the proposal contained in Chairman Lake's October 20, 2021 memo, would be:

- ETEC and its members will continue to use the bi-lateral wholesale power supply market in ERCOT to hedge its members' power supply costs. An LSE Obligation will mandate the amount and tenure of procured bi-lateral capacity graduated by percentage across the forward three-years. As a NOIE, ETEC and its member loads can reasonably be projected three years forward. A graduated LSE Obligation which is lower in the out years (i.e., more distant years) is beneficial to allow hedging flexibility.
- Existing long-term unit-firm generation agreements would need to be assessed based on dependability, reliability, resilience and dispatchability attributes of the generation capacity type and site-specific performance. Until those specific attributes are assessed on

a unit-specific or generation-type specific basis, it will be difficult to quantify the additional hedging needs of ETEC and its members.

- ETEC and its members will bear increased costs associated with procuring the capacity assessed to meet an LSE Obligation.

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?)

ETEC believes either seasonal quarters (i.e., June-August, September-November, December-February, and March-May) or monthly segmenting should provide enough granularity for LSE accuracy and fairness for market participants.

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?

An LSE Obligation based on generation capacity accredited resilience, reliability, and availability performance in concert with ERCOT procurement of an effective set of operating reserve and voltage support products should secure the bulk of the reliability needs of the system.

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?

ETEC is a G&T cooperative that operates in three power regions—Electric Reliability Council of Texas (“ERCOT”), Midcontinent Independent System Operator (“MISO”), and the Southwest Power Pool (“SPP”).³ As perhaps the only load serving entity located along three major RTO/ISO seams, ETEC is in a unique position from which to provide comments in this project. Below is a brief summary of MISO and SPP.

³ See Figure 1, below, which shows an outline of ETEC’s footprint superimposed over the three Regional Transmission Organization (“RTO”)/Independent System Operator (“ISO”) regions on a map.

MISO

- The MISO market uses resource adequacy procedures and mandatory procurement requirements to facilitate the availability of resources to reliably meet the peak demand in the MISO region.
- Each year, MISO determines regional⁴ Planning Reserve Margin Requirements (“PRMR”), which are based on a Loss of Load Expectation Study.⁵
- The PRMR is the amount of resources to which a MISO Local Resource Zone (“LRZ”) must have access in order to meet expected peak customer demand for the planning year as well as a cushion to account for higher than anticipated customer demand or unplanned electric generator outages.
- LSEs in MISO can meet the PRMR obligation through any combination of: (1) owning planning resources, (2) bi-lateral transactions for planning resources, and/or (3) procuring planning resources through MISO’s annual capacity auction, the Planning Resource Auction (“PRA”).⁶
 - Planning resources include electric generation, including intermittent renewable resources,⁷ demand-side resources available to meet resource adequacy requirements, and stored energy resources.
 - The PRA helps to determine whether there are adequate planning resources to meet the anticipated peak customer demands for the entire MISO footprint, as well as whether there is enough supply in each LRZ to ensure reliability of the grid at a local level.
- For planning resources used to meet the PRMR obligation, MISO calculates each individual resource’s unforced capacity (“UCAP”), which includes the capacity of a planning resource based on the resource’s annual Generation Verification Test Capacity test result and subsequently accounts for the planning resource’s forced outage rate. The

⁴ MISO has nine Local Resource Zone (“LRZ”) regions, which are divided geographically largely along or near state borders. For example, in the MISO South area, Arkansas is in LRZ 8, Texas and Louisiana are in LRZ 9, and Mississippi is in LRZ 10.

⁵ MISO also has Local Clearing Requirements, which sets the amount of capacity that must be physically located within a particular MISO local resource zone in order to ensure local reliability. However, this concept may not be needed for ERCOT as long as adequate transmission is in place.

⁶ As part of MISO’s resource adequacy process, a resource’s confirmed UCAP value (which is assessed based on the resource’s forced outage rate and historical availability) is then denoted as zonal resource credits (“ZRCs”). The ZRCs are used in determining an LSE’s resource adequacy. ZRCs act as currency in the annual PRA and each LSE must possess or procure enough ZRCs to meet its PRMR obligation.

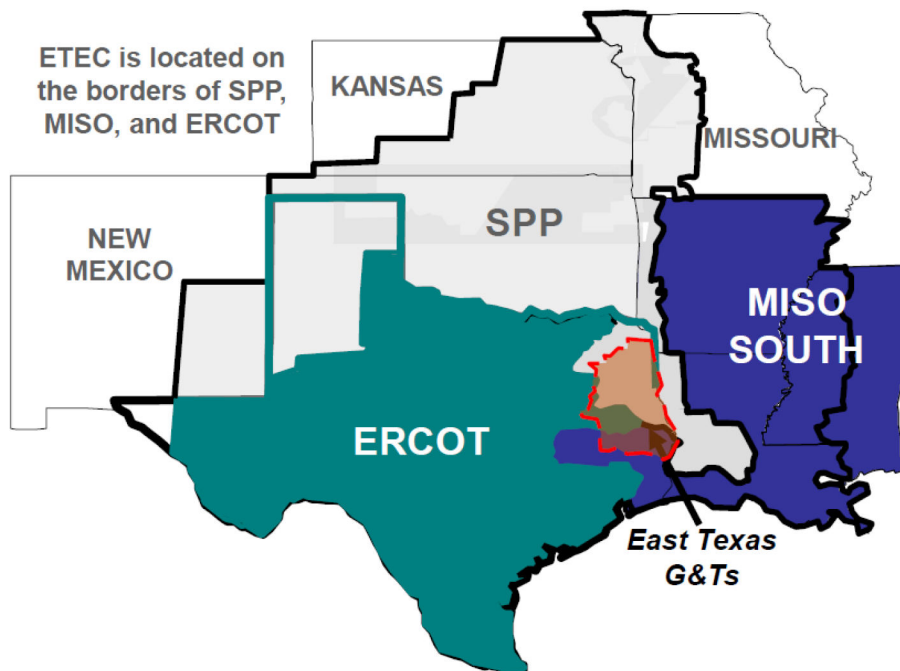
⁷ For example, MISO calculates a capacity credit for wind assets based on annual testing and event data to determine the appropriate UCAP value.

UCAP is used to calculate the ability of a resource to meet an LSE's resource adequacy requirements.

- MISO market participants can use a resource up to its UCAP value to contribute to resource adequacy requirements, but only to the extent the resource is subject to a must offer commitment.
- In the real-time operations, only resources dedicated to meet demand are obligated to be available to meet real-time customer demand and contingencies.
- In addition to the annual PRA, MISO assessing resource adequacy on a seasonal and long-term basis (i.e., five or ten years out).
- The MISO resource adequacy processes are monitored and mitigated by an independent market monitor ("IMM").

An ERCOT LSE Obligation approach can incorporate similar capacity resource assessment requirements and procedures to those used by MISO, as described above. ERCOT's capacity resource assessment procedure can incorporate the Commission's dependability, reliability, resilience and dispatchability attributes necessary for resource adequacy.

Figure 1: ETEC is located in three power regions.



II. Conclusion

ETEC thanks the Commission and its Staff for the opportunity to participate in this project and looks forward to its continued participation as this critical project continues to develop.

Dated: November 1, 2021

Respectfully,

East Texas Electric Cooperative, Inc.

/s/ AJ Goff
AJ Goff
Interim General Manager & CEO

PROJECT NO. 52373

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**EAST TEXAS ELECTRIC COOPERATIVE, INC.'S
EXECUTIVE SUMMARY**

Question 3

- ETEC recommends that any new reliability product be developed in a way that targets operational characteristics rather than fuel source.
- A resource's ability to operate reliably in conformance with a technology neutral objective standard will provide the needed products and reliability without unintentionally excluding existing or future technologies that may help provide the reliability product in a cost effective manner.

Question 6.d

- The impacts of an LSE Obligation, depending on its structure, are anticipated to be:
 - ETEC will continue to use the bi-lateral wholesale power supply market in ERCOT to hedge its members' power supply costs.
 - A graduated LSE Obligation which is lower in the out years (i.e., more distant years) is beneficial to allow hedging flexibility.
 - Existing long-term unit-firm generation agreements would need to be assessed for their relevant reliability attributes. Until that occurs, it will be difficult to quantify the additional hedging needs of ETEC specifically and the market generally.
 - ETEC and its members will bear increased costs associated with procuring the capacity assessed to meet an LSE Obligation.

Question 7

- Seasonal quarters (i.e., June-August, September-November, December-February, and March-May) or monthly segmenting should provide enough granularity for LSE accuracy and fairness for market participants.

Question 8

- An LSE Obligation based on generation capacity accredited resilience, reliability, and availability performance in concert with ERCOT procurement of an effective set of operating reserve and voltage support products is expected to secure the bulk of the reliability needs of the system.

Question 16

- Response above summarizes MISO's resource adequacy procedures and mandatory procurement requirements.