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PROJECT NO. 52373

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

In response to the Project 52373 Commissioner Memorandum ("Memo") filed by Commissioner Will McAdams on November 17, 2021, WattBridge agrees with the Memo's view of improving reliability by incenting new investment in the form of dispatchable generation. Furthermore, the new generation should have operating characteristics that are responsive to alleviating the intermittency of renewable generation which is an increasing part of the supply stack. We believe this is a very positive step forward with market design targeted at compensating the type of generation that will actually address grid instability in a cost effective and reliability-improving manner.

Additionally, WattBridge offers the following comments that we view as modifications to the proposed Dispatchable Energy Credit ("DEC") program:

- First, and most importantly in our view, the DEC program procuring energy credits 12 months in advance, while a step in the right direction, does not in fact offer certainty in revenues that lenders and investors will require. In our recent experience in raising $1.25 billion of debt and equity to finance 1800 MW's of firm dispatchable generation in ERCOT over the last 20 months, lenders will heavily discount any revenue stream that is not firmly contracted or guaranteed in some sense. Lenders will also not lend against a bi-lateral agreement where the revenue guaranteeing party is not investment grade. Many REP's in the market are not investment grade. Without improved access to capital, new generation will not occur even with the DEC program as currently proposed. The most critical feature of any market design to incentivize investment in new generation is certainty in debt repayment over the full period of the debt term, which would likely be 6 to 7 years for any project sponsor. Without such certainty, capital and new generation investment will not come into the market. And while the design may result in additional money in the market among existing, qualifying generation participants, it is not likely to result in new generation investment. New investment will remain on the sideline.
- The fast start requirement of 5 minutes excludes a critical component of a cost-effective solution, which is fast start gas peaking turbines. More importantly, it does not offer a meaningful benefit over 10-minute start generation. We would recommend the 5-minute start requirement be revised to a 10-minute start.
- The LHV heat rate requirement should be 9,100 btu/kwh at the generator lead in order to fully incorporate all fast start gas fired peaking turbine technology that at the same time delivers a fuel-efficient solution, particularly within the range of hours the units are expected to operate.

- A maximum 2-hour duration limit on alternative technology does not provide an effective mitigant or meaningful reliability enhancement to adverse weather events such as what was experienced during URI, or in fact a wind and solar ramp increasing in duration as renewables continue to grow in ERCOT. Regarding fast start gas-fired peaking generation, we recommend a duration of no less than 24 hours.
- We recommend that only new generation commissioned after December 31, 2022 or later, qualifies for the DEC program. This accomplishes the stated goal of new generation and avoids diluting the potential positive financial impact of the program. We also recommend a limit on the amount of generation built under the DEC program.

Recommended New Generation Investment Feature

WattBridge would offer, consistent with our comments previously filed on November 10, 2021, a recommendation to add a component to the DEC program which does in fact provide certainty in debt repayment that lenders require as summarized below:

- We propose a guaranty by ERCOT that ensures a minimum recovery in revenues of $5.50/kw-mo, or $7.43/Mwh, for qualifying new generation resources. The guaranty has the sole function of giving lenders certainty that the debt will be repaid.
- We have confirmed with lenders that have directly loaned into the WattBridge portfolio of 1800 MW's over the last 20 months, that this would materially enhance their ability to lend both in terms of lending rates and length of loan term. Both of these are the two most critical aspects of raising sufficient levels of debt at costs that enable investment.
- This recommended revision to the DEC program solely ensures repayment of debt. It provides ZERO assurance of return on or recovery of equity. That risk continues to be borne solely by the project owner / investor and not by ERCOT consumers or ERCOT as is always the case in a competitive market. Any profit made beyond debt repayment is 100% at risk and a function of returns in the market.
- Qualifying assets would participate in the market as would any other generation resource, responding based on market economics without preferential treatment in any form.
- The minimum recovery in revenues from ERCOT as part of this debt guarantying component will most likely never occur based on current and past market conditions. A backcast since 2018 (excluding 2021) shows that the market would have provided revenues on average of $8.37/kw-mo, significantly more than the proposed ERCOT guaranty level.
- Finally, the pending market design changes related to ORDC, ECRS, firm fuel ancillaries, a potential DEC program, and other items under consideration should result in an expected uplift in market pricing, only making the likelihood that the guaranty is invoked even more remote. ERCOT and consumers will pay nothing incremental for this generation investment outside of market economics.

Further, the proposed ERCOT guaranty offers a number of benefits to the market and ERCOT consumers:

- The benefit of the guaranty is applicable and incenting to all market participants. It provides the same opportunity to invest in new generation to any project sponsor bringing qualifying new generation to the market.
- The additional value retained by the project eliminates the need for the middle person offtake counterparty and enables a faster repayment of the debt ensuring greater stability for the project and a greater overall certainty to lenders that ultimately benefits capital availability.
- The project will have greater equity value and/or distributions that can enable further redeployment of equity in additional projects in Texas.
- As an example, having this type of product would incent WattBridge to build up to an additional 3,000 to 5,000 MW's over the next three to five years, and we believe that other ERCOT market participants would respond similarly.
- The minimum guaranteed price will serve as a firming mechanism for financing purposes but should not require payment by the State based on the expected actual market value of energy/ancillary services and pending market design changes.
- The State enables fast start dispatchable generation to enhance reliability, at little to no cost to the State and withing an existing market structure.
- This type of proposed ERCOT guaranty can be implemented quickly as an additional ancillary product without significant market or ERCOT system changes.
- Fast start, dispatchable generation complements and supports current renewable resources and anticipated further growth in renewable energy via a competitive market-based solution rather than through out-of-market approaches.

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Respectfully submitted,

Mike Alvarado
President
WattBridge Energy
(660) 829-5100

malvarado@wattbridge.info