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Public Utility Commission of Texas

Commissioner Memorandum

TO: Commissioner Will McAdams
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty

FROM: Chairman Peter M. Lake

DATE: December 1, 2021

RE: December 2, 2021 Work Session – Item No. 2; Docket No. 52373 Review of Wholesale Electric Market Design

Since I posted the first “strawman” market redesign proposal, we have all had many discussions and received an enormous amount of feedback from all corners of the ERCOT universe, including the general public. Based on that feedback and by incorporating key features from several recent proposals, I offer this updated “strawman” to continue moving us forward towards our goal. As before, the Commission must quickly narrow the scope of its efforts, eliminate unacceptable proposals, and focus on refining the concepts that will bring reliability to our grid.

You will see that in this version, I proposed pairing an LSE Obligation with a Backstop Reserve Mechanism. The Backstop Reserve Mechanism can be an important bridge to the comprehensive solution that an LSE Obligation provides, but it alone cannot provide long term resource adequacy to the ERCOT market. I suggest we commit to develop both mechanisms later this month and direct staff to open a project for each at the appropriate time.

This Commission has accomplished an extraordinary amount of meaningful reform in a very short amount of time, and it is important to acknowledge that the ERCOT grid is vastly more reliable and resilient going into this winter than it was going into the last. However, we cannot stop here. We must commit to a comprehensive solution to address our substantial long term resource adequacy issues while also continuing to address the operational, planning, and emergency response elements of the ERCOT system.

I look forward to discussing these concepts with you at the work session. Based on the outcome of the work session, I anticipate staff will issue the second draft “strawman” of what will eventually be the blueprint for ERCOT market redesign early next week.

| Concept | Details | Problem Targeted |
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| ORDC Reform | <ul style="list-style-type: none"> - First Change (Dec. 2021): - MCL = 3,000 MW. - HCAP = VOLL = \$5,000. - Second Change (Jan. – Feb. 2022): - MCL = 3,000 MW. - HCAP = \$5,000. - VOLL = To be determined value based on further analysis. | <ul style="list-style-type: none"> - Market-based mechanism to bring units online sooner during scarcity events (as opposed to non-market RUC action). - Increases revenues to reliable assets able to be dispatched during scarcity events. - First Change: Maintains ORDC revenue in market at levels before HCAP moved to \$5,000 (“back to even”). - Second Change: Adds more ORDC revenue to provide additional incentives for reliable assets to be dispatched during scarcity events (“above and beyond status quo”). |
| Demand Response | <ul style="list-style-type: none"> - Change demand response pricing from zonal to LMP. - Establish higher performance standard for energy efficiency program. | <ul style="list-style-type: none"> - Improve transparency of price signals for load resources. - Derive more value from demand response resources from current level of dollars invested. |
| ERS Reform | <ul style="list-style-type: none"> - Move ERS deployment to new MCL (<i>in process</i>). - All ERS should be deployed before a conservation call is needed/issued (<i>in process</i>). - Set a quantity of MW to be procured by season rather than a fixed dollar amount. | <ul style="list-style-type: none"> - Provide an additional margin of safety during scarcity events. - Provide a clear and consistent revenue stream for reliable demand response resources. |
| ECRS (Ramping Ancillary Service) | <ul style="list-style-type: none"> - Continue current implementation schedule. - Assign costs to IRRs responsible for sudden, highly correlated, and substantial drops in generation capacity. | <ul style="list-style-type: none"> - Provide operational flexibility to ensure resource adequacy during evening drop in solar generation and periodic drops in wind generation. |

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| FFRS (Fast Frequency Response Service) | <ul style="list-style-type: none"> - Continue current implementation schedule | <ul style="list-style-type: none"> - Enhance frequency stability. |
| Voltage Support Product | <ul style="list-style-type: none"> - Develop a voltage support product similar to other ISOs. - Assign costs to resources that do not provide grid supporting capabilities. | <ul style="list-style-type: none"> - Ensure voltage support to maintain grid stability as more inverter-based resources come online. |
| Firm Fuel Product | <ul style="list-style-type: none"> - Develop a stand-alone, auction-based firm fuel product (procured in a similar manner as the Black Start program). | <ul style="list-style-type: none"> - Provide revenue support for dispatchable resources that meet a higher standard of (“firm”) winter weather resiliency and reliability. - If weatherization cannot be incorporated into an LSE Obligation (or an intermediate product is needed during implementation), this product can serve as a stopgap to ensure winter reliability. |
| LSE Obligation | <ul style="list-style-type: none"> - Develop an LSE Obligation mechanism based on the following principles: - Provide comprehensive solution to resource adequacy problems by sizing to seasonal net peak load (must require supply of dispatchable power to meet true demand for entire market). - Market power concerns must be adequately addressed. - All dispatchable technologies (including Demand Response) should receive equal economic rewards and equal penalties. - Established performance standards that are regularly tested. | <ul style="list-style-type: none"> - Ensure supply of dispatchable power needed is matched by corresponding demand. - Ensure LSEs procure the electricity they have promised to their customers. |

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| | | <ul style="list-style-type: none"> - Non-compliance penalties (load) and non-performance penalties (generation) should equate to Cost of New Entry. | |
| Backstop Mechanism | Reserve | <ul style="list-style-type: none"> - Develop a backstop reserve mechanism based on the following principles: - Procure dispatchable resources using a framework similar to an existing framework (e.g., Black Start, ERS, etc.) to expedite implementation. - Reserves withheld from market until HCAP reached. - Sized to address need based on net load variability. - Established performance standards that are regularly tested. - Robust non-performance penalties and claw backs. - Costs allocated to load based on load ratio share as measured on a coincident net peak load interval. | <ul style="list-style-type: none"> - Provide reserves in addition to Ancillary Services to ensure reliability during periods of low intermittent generation until LSE Obligation can be fully implemented. - Must be paired with LSE Obligation (a “bridge” until the comprehensive solution is implemented). |