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**PROJECT NO. 52373**

**REVIEW OF WHOLESALE ELECTRIC  
MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION  
OF TEXAS**

**COMMENTS OF SOUTHERN POWER COMPANY**

Southern Power Company (“SPC”) respectfully submits these comments in response to the Public Utility Commission of Texas’s (“Commission”) request in Project No. 52373 and appreciates the opportunity to participate in this important proceeding. As the Commission continues its efforts to finalize Phase I and II market design elements, SPC encourages the Commission to continue its deliberate approach performing robust analysis when appropriate, evaluating viable options, and seeking stakeholder comments. SPC supports the adoption of a Load Serving Entity (“LSE”) Obligation as the most comprehensive solution to ensure long-term reliability outcomes in the Electric Reliability Council of Texas (“ERCOT”) region. Additionally, SPC supports the Dispatchable Portfolio Standard (“DPS”), with some recommended changes, as a viable bridge option to allow for more time to finalize and implement the LSE Obligation.

**I. COMMENTS ON PHASE II MARKET DESIGN CONCEPTS**

**A. SPC Supports the Adoption of an LSE Obligation**

SPC believes that the LSE Obligation is the most comprehensive solution to ensure resource adequacy in ERCOT. A mandatory LSE Obligation has significant advantages, including (1) strengthened system reliability by incentivizing LSEs to plan over a meaningful time horizon, (2) LSE flexibility to obtain their desired supply and demand-side resource mix through a diverse portfolio of short, intermediate, and long-term supplies, (3) improved revenue certainty and financing availability via long-term contracts for generation resources, (4) accreditation of all supply and demand resources based on a standard methodology, and (5) leverage of competitive market forces.

SPC recommends the Commission adopt an LSE Obligation with a planning horizon of three years (at a minimum) requiring LSEs to provide information and increasingly secure

sufficient supply-side and demand-side resources to satisfy their forecasted gross peak load<sup>1</sup> plus a pre-determined reserve margin for the winter and summer seasons. In practice, LSEs would annually submit rolling three-year resource plans providing ERCOT information on forecasted obligations and plans for meeting those obligations with a combination of supply and demand-side resources. While the requirement is three years, SPC expects many LSEs will adopt the prudent practice of longer term (e.g., ten year) planning and procurement activities. These forward three-year annual resource plans submitted to ERCOT would be informational only and have no associated penalties. On a month-ahead basis, LSEs could show increasing increments of satisfying their obligation. LSEs would have the flexibility to manage their month-ahead position through bilateral trading of Resource Adequacy Credits (“RACs”).<sup>2</sup> As a last resort, ERCOT may procure RACs directly in a backstop auction and any short LSEs would be required to purchase their short position from ERCOT at an auction-clearing price.<sup>3</sup> The Commission may consider a cap of RACs that can be procured in the backstop auction in order to avoid overburdening the process. This approach provides maximum flexibility for ERCOT’s retail market structure, allowing Retail Electric Providers to enter, exit, and manage obligations in the closest possible proximity to the operating month. Additionally, this design will mitigate market power concerns because (1) LSEs will have the option, but not the obligation, to bilaterally procure RACs and can instead seek to procure RACs in a centrally procured backstop auction if desired and (2) market power can be monitored and mitigated in such a backstop auction.

Effective Load Carrying Capability (“ELCC”), which ERCOT already uses for annual market equilibrium and reserve margin studies, is a commonly accepted industry practice that is widely understood, would be straightforward to administer, and provide fair accreditation to all resource types. ELCC calculates the amount of incremental load a resource is expected to reliably serve, while considering probabilistic parameters of unserved load caused by unforced outages, load uncertainty, intermittency of renewable energy production, and the interactive effects between all resources. Importantly, ELCC is studied on an hourly basis to estimate all resources’ expected

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<sup>1</sup> SPC recommends using a forecasted gross peak load requirement so that LSEs can demonstrate the math on how all supply and demand resources contribute to satisfy LSEs’ load obligations. This will provide greater transparency to market participants into individual LSEs’ net peak load obligations.

<sup>2</sup> A RAC would represent one MW of qualified capacity and could be used by LSEs to satisfy their obligation requirement. An added benefit is the similarity of RACs to Renewable Energy Credits (“RECs”), which are already familiar to ERCOT and market participants.

<sup>3</sup> Alternatively, ERCOT could procure needed RACs through a competitive request for proposal process, similar to what is currently used by ERCOT to procure Emergency Response Service and Black Start resources.

reliability contribution and thus provides detailed granularity across different operational events throughout a year. Matching the precision of ELCC with the simplicity of a monthly LSE Obligation strikes the right balance. A significant advantage of the LSE Obligation is that it accredits all resources who contribute to reliability and sends investment signals to take actions that will increase capacity accreditation, such as the addition of an electric storage resource to a renewable facility or the investment in additional onsite fuel storage at a gas facility.

SPC believes the LSE Obligation should be enforced continually and not require a trigger mechanism. This year-to-year certainty will incentivize LSEs to plan for resource adequacy compliance over a sufficient time horizon to flexibly secure (either through self-supply or contracts) the desired portfolio of resources to satisfy their corporate objectives and customer preferences. The ELCC process will reward a higher percent of nameplate capacity for dispatchable generation versus alternatives. That, coupled with complimentary changes to energy<sup>4</sup> and Ancillary Services markets and the introduction of a winter reliability product will create the combined economic signals to incent investment in existing and new dispatchable generation.

#### B. SPC Supports the DPS as a Viable Option, but with Recommended Changes

While SPC prefers the more comprehensive LSE Obligation, it also supports the intent of the DPS. With some recommended changes, the DPS could serve as a viable bridge market design option, connecting the current energy-only market and a future comprehensive LSE Obligation. The DPS is an LSE Obligation variation that differs in qualification criteria and procurement scope. However, in its proposed form, SPC questions whether the DPS has sufficient scope or certainty of financial incentives to reach the desired result of seeing new dispatchable generation resources in ERCOT. SPC recommends the following changes to the DPS and the associated Dispatchable Energy Credits (“DECs”): (1) allow all resources, new or existing, that are technically capable of providing the service to qualify, (2) expand the scope of DEC-eligible operating criteria, and (3) set the DPS requirement on a forward-looking basis rather than a historical one.

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<sup>4</sup> SPC believes that a robust scarcity pricing methodology is essential in both ERCOT’s current energy-only market and an LSE Obligation. Scarcity pricing, which is used to incentivize supply and demand response during grid shortage conditions, is essential to ensuring real-time operational reliability. SPC believes that it is appropriate for the Commission to review the Operating Reserve Demand Curve at a future time when the design elements of an LSE Obligation are more certain.

First, SPC opposes the current DEC qualification proposal that only allows new generation resources to participate, as this is inherently discriminatory and treats resources providing an equivalent service differently based on the timing of resources' commencement of commercial operations. As proposed, DEC will subsidize a particular subset of new generators and make existing DEC-ineligible generators with the same desired operational capabilities less economic, possibly even forcing their retirement over the long-term. Second, DEC qualification should be expanded to allow resources who can ramp to full production capability over a time period greater than five minutes, to avoid unintended consequences of forcing the retirement of long-duration dispatchable generation in favor of more quick-responding dispatchable resources. While operational flexibility is a desirable characteristic that is needed on the ERCOT system, generation resources who take longer to ramp to full capacity can still provide valuable reliability needs and may be capable of sustaining energy production over a longer time horizon. SPC encourages the Commission to seek further stakeholder feedback on specific DEC resource criteria which can collectively deliver the desired operational characteristics. Broadening resource participation will use competitive forces to more cost effectively procure DEC and lower costs for consumers. Finally, DPS should operate on a forward-looking basis and incorporate larger total volumes in accordance with the expanded resource eligibility discussed above. In concert with the Commission, ERCOT Planning and Operations staff are best positioned to analyze and forecast required volumes of dispatchable resources needed to reliably operate the system. Expanding target volumes beyond annual load growth to a volume matching total dispatchable needs of the system will ensure more comprehensive long-term reliability as the ERCOT resource mix evolves in the future, adding increasing volumes of zero to low-cost marginal energy resources. For example, ERCOT could attempt to determine a certain volume of dispatchable capacity needed to address sustained upward net load ramps within defined confidence intervals, by looking at historical data of such sustained upward net load ramps and expected load growth and resource mix changes. The Commission could then evaluate and select its desired reliability standard (i.e., X MWs of dispatchable capacity that can be sustained for Y hours).

C. Backstop Reliability Service (“BRS”) Principles can be Achieved with an LSE Obligation and Other Market Design Elements

SPC believes that the BRS principles can be achieved with an LSE Obligation and other ongoing complimentary design elements. A well-designed LSE Obligation would apply

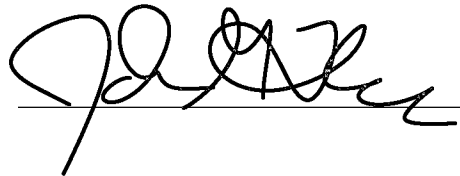
appropriate scrutiny of all resources' capabilities, impacting their accredited values and driving investment across a diverse range of supply and demand-side resources, ensuring market stability and enduring reliability. Additionally, the existing suite of Ancillary Services, potential new Ancillary Services, and Emergency Response Service provide ERCOT with a set of flexible tools to manage real-time operational needs of the system. SPC opposes holding megawatts out of the market and is concerned with potentially increasing the complexity of the multilayer of products that may overlap each other and ultimately do a poor job anticipating unknown future system needs and resource capabilities. However, SPC agrees that a modified DPS paired with BRS can serve as a bridge option while the Commission continues determining design elements of the LSE Obligation. If the Commission decides to pursue BRS, SPC agrees that BRS resources should be deployed only at the High System Wide Offer Cap and their impact be included in the Reliability Deployment Price Adder to prevent price suppressive effects from these out-of-market resources.

## II. CONCLUSION

SPC appreciates the opportunity to provide comments for the Commission's consideration in its review of wholesale electric market design. It is crucial that the Commission create a market design that maintains regulatory stability and financial certainty and promotes long-term resource adequacy. SPC believes that the proposed LSE Obligation is the best option to assure long-term reliability outcomes and incentivize investment in all resource types. SPC is open to discuss these comments, as well as previously filed comments, with the Commission.

Dated: December 10, 2021

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John Trawick', written over a horizontal line.

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**PUBLIC UTILITY COMMISSION  
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**EXECUTIVE SUMMARY**  
**COMMENTS OF SOUTHERN POWER COMPANY**

As requested by the Commission Staff, SPC submits this executive summary of its comments in bullet point form. SPC recommends that the Commission:

- Adopt a mandatory LSE Obligation that will enforce planning practices and drive investments across a diverse range of supply and demand-side resources, ensuring market stability and enduring reliability. Specific recommendations from SPC will:
  - Create flexibility for LSEs and preserve ERCOT’s retail market structure.
  - Allow all supply and demand resources to compete based on their merits.
  - Provide greater long term economic signals and certainty for generators.
  - Mitigate market power concerns.
- Consider modifications to the DPS to create a meaningful bridge mechanism, specifically:
  - Qualify all resources, new or existing, capable of providing desired services.
  - Expand the scope of DEC-eligible operating criteria.
  - Match volumes procured with total system dispatchability needs as determined by ERCOT Planning and Operations staff.
- Proceed with caution to avoid creating an administratively complex, multilayered market design with narrowly focused solutions that will ultimately overlap and do a poor job addressing long-term unknown future system needs.