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PROJECT NO. 52373

REVIEW OF WHOLESALE ELECTRIC
MARKET DESIGN

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PUBLIC UTILITY COMMISSION
OF TEXAS

COMMENTS OF EOLIAN, L.P.
ON SECOND STRAWMAN BLUEPRINT

Eolian, L.P. (Eolian) files these additional comments regarding the Dispatchable Portfolio Standard (DPS Proposal or DEC Proposal) proposed by Commissioner McAdams on November 17, 2021, and in response to the Second Strawman Blueprint Commission Staff filed in this proceeding on December 6, 2021. The following comments are meant to provide (a) a succinct summary of how the DEC proposal and a Backstop Reliability Service create complementary products covering all resource adequacy needs and (b) how the DEC proposal satisfies the principles required by the Commission.

HYBRID MODEL: WHY A BACKSTOP RELIABILITY SERVICE AND DECS ARE COMPLEMENTARY PROPOSALS THAT PROVIDE A FULL RELIABILITY SOLUTION.

1. **The Backstop Reliability Service (“BRS”) and a DPS meet complementary market needs - inter-day reserve alongside intra-hour/day dispatchability:**
 - The BRS provides inter-day reliability with generation units that must meet 8-hour durations and the ability to run for consecutive days, but that have cold-start time of 2 hours.¹ The BRS preserves generation that has a difficult time competing daily where there is a lot of volatility within 2-hour blocks but can provide a deep insurance product for extreme events.
 - DEC-compliant generation provides intra-day and intra-hour reliability when the market experiences unpredictable ramping and scarcity events due to missed forecasts and forced outages of large units during inopportune times.

A combination of DEC-compliant and BRS generation capacity can meet the risk scenarios outlined in the latest ERCOT SARA report. Examples include:

- Heat event during a prolonged drought where the wind resource is low and some thermal plants are offline due to high ambient water temperatures in their cooling ponds and where DEC-compliant generators are required to quickly bridge volatile daytime capacity shortages.
 - Cold event where widespread icing conditions incapacitate multiple key transmission paths, Non-Spin is in 100% use, and BRS generators must be deployed to meet load conditions.
2. **This hybrid model maintains existing generation while ensuring the “right” new build.**
 - a. A DPS brings in new-build dispatchable generation immediately, and the BRS provides a home for high heat rate, slow ramping generation². If sized to fill holes identified by the Winter 2022

¹ The Brattle Group proposed that the ramping requirement could be set even longer. We would support a longer ramping requirement so that existing generation with 8+ hour ramps could participate.

² The BRS alone *could* incentivize new dispatchable generation by removing generation from the market and creating apparent opportunity for new-build CCGTs. However, as evidenced by significant daily periods of excess

SARA report as Commissioner Cobos suggested during the Commission’s November 19 Work Session, the implementation of BRS will remove ~3-5 GW of generation out of the daily operating stack and preserve it for extreme events. This leads to very clear upward pressure on energy prices and capacity shortfalls unless new generation enters the system at the same time. Therefore, a sensible path for implementing the BRS program is to match it with a self-correcting DPS program to ensure that the ‘removal’ of generation into the BRS program does not inadvertently lead to massive price increases due to daily generation shortages.

3. BRS and a DPS Are Both Self-Correcting and Maintain Flexibility in Future Market Design

- a. These programs solve near term needs and allow future changes to be made when the actual operating conditions in the system are seen over the next few years. They avoid locking in a concrete and inflexible market overhaul as proposed by the various versions of the LSE Obligation.
- b. The BRS program relies on a competitive RFP process led by ERCOT. DEC’s are traded on an exchange platform. Both mechanisms ensure the lowest cost to consumers through consistent and transparent price discovery.

These two differentiated products address different components of resource adequacy and work together to ensure reliability.

THE DISPATCHABLE ENERGY CREDIT PROPOSAL SATISFIES THE PRINCIPLES SET OUT BY THE PUCT ON DECEMBER 6:

Principle	DEC Proposal Adherence to Key Principles
Offer economic rewards and provide robust penalties or alternative compliance payments based on a resource’s ability to meet established standards (including penalty at cost of new entry for both non-compliance of load and non-performance of generation)	On the generation side (a) DEC qualification is physically defined by clear technical standards and (b) DEC’s are only created by meeting clear performance criteria. On the retail side, the DEC proposal uses an alternative compliance payment (“ACP”) that caps retail entity penalty exposure. The ACP can be set at the PUCT’s discretion (e.g., at the cost of new entry).
Build on ERCOT’s existing Renewable Energy Credit (REC) trading program framework or other existing framework to the extent practicable.	The REC framework has been proven transparent and successful at driving investment in new generation – resulting in low retail compliance costs. The DEC proposal was designed to utilize the REC infrastructure within the PUCT and ERCOT systems to ensure rapid implementation.
Be self-correcting (in a properly functioning market, higher energy prices will incentivize new supply and over time that additional supply will drive	LSE Obligation: Higher average energy prices alone in a market with increasing volatility metrics will not ensure new investment. New investors will continue to find it difficult to deploy capital at

generation and low energy prices, the system does not require new baseload nor standard mid-merit inflexible generation. Instead, it requires generation that can provide ancillary services and flexibly participate in the energy market during volatile or stressed conditions. A DPS is required on top of the BRS program to (a) guarantee the rapid deployment of new dispatchable generation and (b) make sure that the technology coming in matches future system requirements.

energy prices back down to market equilibrium).	reasonable rates of return. ³ Therefore having an LSE Obligation that raises prices is <i>not</i> inherently self-correcting because it does not <i>guarantee</i> the new investment needed to push down prices. DECs: DECs use a clear but capped incentive with a strict sunset that allows new investors to deploy capital immediately. With competition’s ability to drive the cost of a DEC down to nearly \$0, DECs will not impact bidding behavior nor distort market prices over time. They are further self-correcting because if competition does not emerge quickly, any ACPs are credited toward overall consumer ancillary service costs and reduces overall system costs.
Have clear performance standards (incentivize higher performance).	DEC qualifications are based on technical performance standards that ensure investment in the highest-performing state of the art technology.
Sizing of the program must be dynamic (e.g., peak net load).	The Dispatchable Portfolio Standard can be set by an annual calculation based on peak demand and to address load growth in the state.
Provide a forward price signal to encourage investment in dispatchable generation resources.	DECs: An annual ACP set for the life of the program can immediately and transparently establish this signal. The ACP can be set at a level that balances incentives to new resources while limiting incremental charges to retail customers. The LSE Obligation raises prices for everyone but does <i>not</i> specifically target these costs toward the investment in new dispatchable resources.
Value or qualify resources based on capability.	DECs are designed to value, qualify, and incentivize new generation based on specific capabilities that are not currently valued in the ERCOT market and would not be valued under the LSE Obligation. The LSE Obligation is designed to ignore differentiated capabilities and attributes as it only values nameplate capacity/ELCC.
Establish standards that can be regularly tested or certified upon the start of commercial operation.	DEC qualification can be tested or certified once an application is made to the PUCT and could be verified on an annual basis similar to the new weatherization rules.
Be proportional to the system need, with dynamic pricing and sizing to ensure reliability needs are met without over-purchasing reserves.	Sizing: The base volumes should be established in advance to meet system needs (giving new investment some certainty) with the ability to expand if growth exceeds original supply. Pricing: Structurally, DEC prices are capped at the ACP and will compress towards \$0. Conversely, the LSE Obligation will force retail providers to over-purchase capacity to protect their rates. This structure will inherently drive-up capacity prices with uncapped maximums.
Be compatible with ERCOT’s robust competitive retail electricity market that provides choice for consumers.	The DEC proposal is a small percentage of retail load, includes a known cost cap, and can be traded in a transparent exchange so that even the smallest retail entities have equal access and full price discovery. The LSE Obligation will result in a further consolidation of the retail market as retailers need larger scale to

³ Due to substantial periods of excess generation, prices will not necessarily rise uniformly across all hours but instead during specific high net load hours that become very volatile hours.

	<p>ensure they can procure capacity or protect against exorbitant rates. New competitors will be discouraged from entering ERCOT market due to market power concerns, increased capital requirements to procure generation for uncertain future load, and limited availability of credit in ERCOT market.</p>
<p>Ensure market power concerns are mitigated, especially regarding electric generation companies that also serve retail customers, so that competition and innovation will continue to thrive in the ERCOT market.</p>	<p>DECs avoid this issue entirely because there is very little current DEC-compliant generation existing on the system (no current market power issue). The ACP mechanism sets a known target for all participants at the point of economic indifference (i.e. cost of new entry) which <i>eliminates</i> the opportunity to exercise market power. Conversely, the LSE Obligation requires that new entrants sign bilateral contracts with a handful of generators that currently control 90% of the dispatchable capacity in ERCOT and are affiliated with direct competitors of new entrants. Many market participants and the IMM have expressed concern about potential market power abuse under the LSE Obligation, and no clear path has been identified to eliminate those concerns.</p>

Eolian appreciates the opportunity to provide these comments and looks forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,

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EXECUTIVE SUMMARY

Hybrid Model: Why a Backstop Reliability Service (BRS) and Dispatchable Portfolio Standard (DPS) are Complementary Proposals that Provide a Full Reliability Solution.

1. The BRS and DPS meet complementary market needs – inter-day reserve alongside intra-hour/day dispatchability. A combination of Dispatchable Energy Credit (DEC)-compliant and BRS generation can meet the risk scenarios outlined in the latest ERCOT SARA Report.
2. This hybrid model maintains existing generation while ensuring new dispatchable steel in the ground. A sensible path for implementing the BRS program is to match it with a DPS program that guarantees new build and ensures that the placement of existing generation into the BRS program does not inadvertently lead to unnecessary energy price increases.
3. BRS and DPS are both self-correcting and maintain flexibility in ERCOT’s future market design. These proposals solve near-term needs and allow future changes to be made in response to actual operating conditions. Both proposals also ensure the lowest cost to consumers and avoid market power concerns through consistent and transparent price discovery.

The Dispatchable Energy Credit Proposal Satisfies the Principles Set Out in the Commission’s December 6 Second Strawman Blueprint.

- As demonstrated in the full comments, the DPS Proposal adheres to each of the Principles in the Commission’s latest Strawman Blueprint. The various LSE Obligation Proposals will not meet all of the Principles.