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PROJECT NO. 52373

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

NEXTERA ENERGY RESOURCES, LLC'S COMMENTS IN PROJECT 52373

NextEra Energy Resources, LLC ("NextEra") appreciates the opportunity to participate in the Public Utility Commission of Texas's ("Commission") review of the Electric Reliability Council of Texas's ("ERCOT") wholesale electric market design and the related rulemaking process.

The Commission's most recent market design blueprint published December 6, 2021 includes principles guiding the design of the Load-Side Reliability Mechanisms as well as Backstop Reliability Service. NextEra supports these principles and agrees that they are appropriate components of a new reliability solution for the ERCOT market.

NextEra believes elements of the proposed Load Serving Entity ("LSE") Obligation or the Dispatchable Energy Credits ("DECs") proposal may be successful at ultimately achieving these principles; however, the current LSE Obligation and DEC proposal both include design problems and should not be adopted as proposed.

NextEra recognizes the important reliability needs driving the Commission to adopt market redesign and appreciates the desire to quickly implement changes. NextEra applauds the Commission for adopting a number of impactful changes this year at an accelerated pace. NextEra believes the stakeholder process is a critical component to sound market changes and encourages the Commission to initiate formal rulemaking proceedings to properly evaluate all the impacts to customers, generators and retailers. Finally, NextEra believes it is only prudent to adopt market design changes after the cost impact of those changes are properly studied and understood.

LSE Obligation

NextEra's market design comments filed on November 1, 2021 provided many detailed concerns and recommendations regarding the proposed LSE Obligation. Specifically, the proposed LSE Obligation creates concerns around generator economic withholding, predatory retail pricing, and suppression of the competitive retail market environment, all of which would ultimately harm Texans.

Some mitigation of these concerns could be achieved by incorporating various design features such as shifting the compliance obligation from the LSEs to Transmission Distribution

Service Providers, adopting a centrally market cleared design, and establishing stricter limits on LSE affiliated generation ownership.

NextEra does not oppose pursuing some form of the proposed LSE Obligation, but stresses that market power and competitive retail choice concerns need to be adequately addressed before adopting the LSE Obligation. Any design features of the LSE Obligation should acknowledge the firmness of a generator's capability and allow for voluntary participation by generators.

Dispatchable Energy Credits (DECs)

NextEra recognizes the appeal of the widely adopted and successful Renewable Energy Credit ("REC") framework and thinks it can be adopted in ERCOT as an element of the market design proposals that are being considered to meet the evolving reliability needs of the system.

NextEra believes the DEC is an innovative concept and it is the market design proposal currently under consideration that creates the strongest, most direct incentives for the development of new dispatchable generation in ERCOT. Commenters have raised valid concerns about the current DEC proposal's narrow operating parameters and about payments to new dispatchable resources resulting in the retirement of existing generation. These concerns have merit, and they need to be addressed as part of the Commission's Phase II market design work.

The performance parameters for DEC qualified resources should be evaluated by ERCOT to ensure new dispatchable generation that qualifies for DECs meet the reliability needs of the system, while not being so restrictive that they unnecessarily increase the cost of adding dispatchable generation to the system.

Concerns about payments to new resources driving the retirement of marginal resources are also well founded. However, if the qualification standards are correctly defined, new resources entering the market should be necessary to meet the operational reliability needs of the system, and the adoption of a Backstop Reliability Service ("BRS") will prevent the retirement of any marginal units that are required for capacity sufficiency.

For these reasons, NextEra believes the DEC proposal has a role in ensuring the future reliability of the ERCOT grid and should be included in the suite of market design changes the Commission continues to work on and refine in Phase II of the market design activity.

Backstop Reliability Service (BRS)

NextEra supports the creation of a BRS. The flexible design of the BRS achieves multiple market redesign objectives, it is aligned with the principles outlined in the recent Memo, and it fits well in the current ERCOT market structure.

It is dynamic – the total volume needed will change as demand and supply changes, allowing the market to bridge a potentially short-term reliability shortfall. It is transparent – a centralized auction provides visibility into clearing prices for market participants. It encourages competition – a competitive auction dictates that lowest cost wins. It can be implemented quickly – a simple design combined with out-of-market payments is easily incorporated into the market. It aligns with the current market design – the new product is a logical extension of the existing suite of ancillary services and it supports the current energy-only market design. It is cost-effective – Texas avoids paying unnecessary capacity payments to all generators. Finally, it addresses reliability – the service provides more stable cashflows for participating resources, bolsters forward prices, and provides efficient market signals for additional generation. All of these benefits result in a better and more reliable electricity market for Texans, which is the overall objective of this process.

NextEra also believes BRS could be its own long-term solution for reliability or a temporary solution as the market builds another load-side reliability mechanism for long-term planning.

Hybrid Proposal

A hybrid of the Load-Side Reliability Mechanisms and the BRS could provide a solution that addresses shortcomings of the various approaches. A Dispatchable Portfolio Standard ("DPS") could be implemented to procure new dispatchable resources to fill the existing gap between p95 supply and peak firm demand, while utilizing features of the BRS to avoid retirements caused by the negative economic effects of the new supply on existing dispatchable generators.

Borrowing from the BRS, ERCOT would establish the annual DPS system requirement by calculating the supply shortfall between p95 supply and peak firm demand. The DPS system requirement would be allocated to LSEs based upon historic net load ratio share. LSEs would be required to show they hold sufficient Dispatchable Supply Credits ("DSCs") or pay an Alternative Compliance Payment ("ACP"). ACP payments will be used by the ISO to defray the costs of contracting for new supply selected via an ISO led RFP.

DSCs would be awarded to new (on-line after 2/15/2021) dispatchable supply, both generation and demand-side resources, that meet criteria established in the BRS proposal. Resources that qualify will be provided with 5 years of tradable DSCs with vintages aligned with the first 5 years of operation. During those 5 years, the resources will be withheld from the energy market and only released to meet energy demand when operating reserves fall to the MCL. After the 5-year withholding period, ERCOT will determine if there is still a system supply shortfall, excluding the DCS supply. If so, the BRS can be used to provide a revenue stream for at-risk existing dispatchable resources. This hybrid market design will drive dispatchable supply investment in the near term while protecting the existing dispatchable supply from the suppressive impacts of the new subsidized supply.

ERCOT Contingency Reserve Service (ECRS)

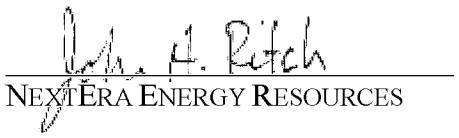
NextEra strongly supports a formal rulemaking process to evaluate cost allocation. To date, the Commission has not explicitly solicited formal written comments from stakeholders and NextEra believes it is imperative for the Commission to receive thorough, comprehensive feedback to avoid unintended consequences and meet the requirements of Senate Bill 3.

As NextEra has highlighted in its previous market design filings, renewables are not the only generator with "integration impacts," yet other generators are not burdened with their corresponding integration impacts. The largest generating resources on the system (i.e., the largest loss-of-source contingencies) increase reserve requirements. Nuclear plants are unable to be flexibly dispatched to follow load. Thermal generation, with reliance on fuel and water availability, create unhealthy air emissions for the public, but are not burdened with these vulnerabilities. Cost allocation for only the one ancillary that has been associated with renewable ramping is per se discriminatory.

Load's role as the ultimate beneficiary of the system's ability to meet firm demand has not changed with the addition of renewables. The principle of cost causation created by firm load's reliability requirement is the reason why all ancillary services that are currently required to reliably operate the grid are borne by load. Load is also the beneficiary of low-cost intermittent renewable generation, even after acknowledging perceived integration impacts. If load continues to take the significant benefit of low-cost renewables but not the ancillaries associated with them, then generation is being forced to subsidize load.

NextEra looks forward to continued participation in this rulemaking process and sharing details that will continue to support ancillary service cost allocation to load.

Respectfully submitted



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EXECUTIVE SUMMARY OF COMMENTS ON MARKET DESIGN
NEXTERA ENERGY RESOURCES, LLC - DECEMBER 10, 2021

NextEra supports adoption of a Load-Side Reliability Mechanisms as well as the BRS. The current LSE Obligation and DEC proposal both include design problems and should not be adopted until those problems are fixed.

A stakeholder process is a critical component of sound market design changes and encourages the Commission to initiate formal rulemaking proceedings to properly evaluate all the impacts to customers, generators and retailers. It is only prudent to adopt market design changes after the cost impact of those changes are properly studied and understood.

- **LSE Obligation:** Market power and competitive retail choice concerns need to be adequately addressed before adopting the LSE Obligation.
- **DEC:** The DEC is the market design proposal currently under consideration that creates the strongest, most direct incentives for the development of new dispatchable generation in ERCOT. If the DEC qualification standards are correctly defined, new resources entering the market should be necessary to meet the operational reliability needs of the system, and the adoption of a BRS will prevent the retirement of marginal units.
- **BRS:** The flexible design of the BRS achieves multiple market redesign objectives, and it fits well in the current ERCOT market structure. The BRS could be its own long-term solution for reliability or a temporary solution as the market builds another load-side reliability mechanism for long-term planning.
- **Hybrid Proposal:** A hybrid of the Load-Side Reliability Mechanisms and the BRS could provide a solution that addresses shortcomings of the various proposals. A DPS could be implemented to procure new dispatchable resources to fill the existing gap between p95 supply and peak firm demand, while utilizing features of the BRS to avoid retirements caused by the effects of the new supply on existing dispatchable generators.
- **ERCOT Contingency Reserve Service:** A formal rulemaking process is required to evaluate cost allocation. Firm load's reliability requirement is the reason why all ancillary services that are currently required to reliably operate the grid are borne by load. Cost allocation for only the one ancillary service that has been associated with renewable ramping is per se discriminatory.