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PROJECT NO. 52373

**REVIEW OF WHOLESALE
ELECTRIC MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**COMMENTS OF
CLEARWAY ENERGY GROUP LLC**

COMES NOW Clearway Energy Group LLC (“Clearway”) to file these comments regarding the Commission’s Second Strawman on Market Redesign filed in this proceeding on December 6, 2021.

INTRODUCTION

Clearway builds, owns, and operates wind, solar, and gas power plants, as well as stand-alone battery storage systems and storage paired with generation. We are one of the largest independent power producers in the U.S., with significant footprints in California, Texas, and 26 other states. In Texas we currently operate over 1.5 GW of wind and solar generation, representing over \$2 billion in capital investment in the state. We have over 3 GW of new wind, solar, and storage under development in Texas representing a multi-billion dollar commitment to the ERCOT market that is sensitive to the market reforms under consideration by the Commission.

COMMENTS

Clearway appreciates the substantial efforts of the Commission over the past ten months to move quickly to enact market reforms to improve reliable operations of the Texas grid and prevent the types of outages seen during Winter Storm Uri. The Commission’s actions on weatherization and more conservative operation of the grid are important mechanisms to reduce the risk of winter outages.

Our comments here are narrowly focused on the Commission's consideration of "Phase II" market design changes, namely the consideration of reliability market mechanisms including a Dispatchable Energy Credits (DEC) framework and/or a Load Serving Entity Reliability Obligation (LSERO). **Clearway urges the Commission to conduct further analysis on reliability market mechanisms, including the DEC framework, that evaluates specific policy designs and the resulting impacts to grid operations, generators, and electric customers.**

A new reliability market would be a major structural change to the Texas energy market with many potential unintended consequences, and careful consideration informed by in depth expert analysis and stakeholder feedback is the only prudent way to proceed.

It is critical that any reliability market mechanism the Commission ultimately adopts solves for the right thing. Texas is not short on capacity. Instead, the ERCOT grid needs greater flexibility, meaning technologies that can ramp up and down quickly to smooth the variability of a system increasingly powered by intermittent wind and solar generation. An LSERO, if designed incorrectly, would only result in windfall profits to existing thermal generators, paid for by higher rates charged to electric consumers, because it would not incent the construction of reliability-enhancing systems which are essential to the efficient, flexible operation of the ERCOT system going forward.

Clearway's experience operating thermal and renewable plants in CAISO is instructive here: CAISO implemented a Resource Adequacy (RA) market in 2006 that is similar to the LSERO currently under consideration by the Commission. That market did not result in sufficient investment in new fast-ramping dispatchable generation, which was a key contributing factor to inadequate supply and emergency procurement actions by CAISO and the California Public Utilities Commission (CPUC) in recent years.

The fundamental flaw in CAISO's Resource Adequacy market to date has been that resource adequacy obligations have not been granular enough; with a single monthly and annual System RA value for each LSE and each resource, RA obligations and counting mechanisms have not incorporated the time-differentiated nature of different resources as related to system peaks. Introduction of the Flexible RA product in 2015 has been one step toward addressing this problem, but the product has proven to be complicated to define and match to the needs of the grid. The CPUC and CAISO are now working with stakeholders to develop a system of time-differentiated RA obligations. Once implemented, this new system should achieve the goal of properly incentivizing and compensating resources for being available at the specific times when they are needed, while avoiding the pitfalls of overpaying for less flexible capacity or undercompensating resources meeting the gross load peak.

This CAISO experience demonstrates the difficulty in properly calibrating an LSERO and the need to significantly refine the LSERO proposal on the table, if the Commission continues to advance it, to not repeat California's mistakes and to better reflect the changing needs of the system hour-by-hour and the ability of solar and storage resources in particular to meet those needs.

A DEC framework has the potential to be a more targeted approach to ERCOT market redesign that drives investment in new dispatchable generation with fewer unintended consequences. Importantly, it would avoid the risk of a poorly designed LSERO devaluing existing wind and solar generation and threatening existing consumer contracts while failing to deliver the needed reliability improvements.

While the Commission considers the proper design of a longer term reliability market approach for Texas, a right-sized Backstop Reliability Service procurement could serve as a near term mechanism to help increase reliability without threatening existing generation and contracts.

CONCLUSION

Each of these new market mechanisms requires further development informed by expert analysis that is made public to enable stakeholder feedback. Clearway appreciates the opportunity to provide these Comments and we look forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,

Hannah Muller
Hannah.Muller@clearwayenergy.com
Head of Policy & Markets
Clearway Energy Group
1200 Smith Street, Suite 600
Houston, TX 77002