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**REVIEW OF WHOLESALE
ELECTRIC MARKET DESIGN**

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**BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS**

**JOINT RETAIL ELECTRIC PROVIDERS'
COMMENTS ON MARKET DESIGN BLUEPRINT**

JOINT REPS' EXECUTIVE SUMMARY

Phase I

The Joint REP's generally support the actions identified for Phase I and expect that these broad and expansive changes will have a positive effect in incenting additional development of reliable dispatchable resources.

Other items that should be included in Phase I are:

1. Emergency Pricing Program

- SB 3 requires that the Commission establish an emergency pricing program
- Under this program, the Commission can establish triggers that would suspend the ERCOT market and move to cost-based, command and control operations
- This would remove disaster operations from the market model and relieve regulatory uncertainty.

2. Real-time Co-optimization

- Extensive work has been done to prepare for implementation of real-time co-optimization. The Commission should release the hold on implementation of these efforts to allow individual resource responsibility to be in place and deployed in the most efficient manner for ancillary services.

Phase II

- The Commission should allow time for the market to stabilize after implementation of the Phase I changes before deciding on what future changes might be necessary.
- Market design changes proposed for Phase II should be studied to understand,
 - Cost to customers in the market,
 - Cost and timing to implement
 - Impact on financial incentives for new dispatchable power, and
 - Impact on competitive choices available to customers in the competitive market.
- The LSE Obligation will not solve the wholesale market reliability issues that were encountered in Winter Storm Uri and is contrary to the existing statutory framework.
- The LSE Obligation is a very complex and unproven mechanism that will conceivably direct financial incentives to dispatchable resources. It has not been successfully implemented in any market that has robust retail electric competition.
- There are other more targeted proposals that if adopted would direct financial incentives to dispatchable resources but would be implemented more quickly, at a lower cost to customers, and without harming or reducing the competitive retail options available to customers.
- The Reliability Service backstop should be implemented with specific performance metrics through a central procurement administered seasonally by ERCOT, much like the ERS program.

These comments are provided on behalf of the following competitive retail electric providers who offer service to customers in the ERCOT market: 174 Global Power, 3000 Energy Corp., Amigo Energy, AP Gas & Electric, Hudson Energy, Just Energy, Octopus Energy LLC, OhmConnect Texas LLC, and Tara Energy (collectively, Joint REP's).

Phase I – Market Design Changes

The Joint REP's generally support the actions identified for Phase I and expect that these broad and expansive changes will have a positive effect in incenting additional development of reliable dispatchable resources.

Other items that should be included in Phase I are:

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Emergency Pricing Program

Senate Bill 3 requires the Commission to institute an Emergency Pricing Program for disaster events where a market-based model is not solving the operational issues, so the current market model would not be in place in times of prolonged disaster. Under this new program, in the event of a disaster, the market would be suspended, transitioning to a cost-based mechanism, and ERCOT would have the command-and-control authority to operate as needed to protect life and property through the disaster.

Phase II – Market Design Proposals

Load-Side Reliability Mechanism. *The Commission has agreed to develop a load-side reliability mechanism that will serve the purpose of ensuring the supply of dispatchable generation is sufficient to meet system demand in ERCOT. The Commission will develop a load-side reliability mechanism that will adhere to the principles listed below. The Commission’s development of a load-side reliability mechanism will take into consideration the following proposals and how they can be implemented adhering to the stated principles.*

At the outset, it is important to realize that the continued “discussion” of fundamental changes to the market are having a very real negative effect on investment in this market. Due to the extensive changes to be implemented under Phase I, it is important to observe and understand the positive impacts of those changes before implementing any additional market design changes. Once we understand the impacts of the Phase I changes, it will be important to conduct studies on the costs of implementing any further load-side reliability mechanism. For example, initial studies from Brattle indicated a 7% increase in cost and a shift in cost structures with about 30 % of cost being associated with the capacity payment for at least one form of the LSE Obligation premised off the E3 proposal.

In any going forward review, adherence to the principles listed in the PUC Staff memo is critical including:

Be compatible with ERCOT’s robust competitive retail electricity market that provides choice for consumers.

The proposed LSE Obligation as described in the E3 proposal and in other memos, violates this and other principles identified in the Commission memo. At its core, the LSE Obligation says that REPs should buy or construct generation capacity if they do not have or are unable to obtain in the marketplace a contractual physical hedge. This is in direct contravention of Public Utility Regulatory Act that prohibits REPs from owning generation. If the Commission determines that

further exploration of this approach is warranted, it should be part of the recommendation to the Legislature for 2023 to ensure that the policy direction is consistent with the Public Utility Regulatory Act.

The success of the retail electric market in bringing innovation and reliable electric service to Texans for more than 20 years is well established. Texas continues to lead the world in fostering innovation through its retail market. With technology of advanced meters and appropriate price signals, the ERCOT market is poised to continue to lead the nation in a business and customer-friendly environment for the provision of power.

There is no successful implementation of an LSE Obligation in a comparable competitive retail electric market:

- The other US markets on which E3 relies as examples are not relevant comparisons.
 - Physical bilateral matching of supply with retail obligations is less of an issue in these regions than it would be in Texas because the participants are largely vertically integrated monopoly utilities who have relatively matched generation and load by design and legacy. The designs themselves do not have to contemplate robust load switching and competition.
 - Notes on other ISOs: California has very limited customer choice, MISO is only restructured in Ameren and Michigan. Both MISO markets still have auctions. Michigan has a similar LSE obligation (retail providers must show physical capacity supply years ahead), and it is almost impossible to find a forward supply of capacity to meet this obligation, especially when layering in potential credit limitations associated with bilateral contracts, thus very low levels of competitive penetration.
- The Australian Retailer Reliability Obligation program is unproven and complicated. It also has very complex market power mitigation measures that are not put forth in the E3 proposal.
- Load Obligation was tried in PJM and was ultimately rejected in favor of a standard capacity market.

Other Load Obligation Proposals

Although Joint REPs believe that the current market delivers the appropriate price signals to incentivize long-term hedging, if there remains a concern that such hedging is not in place, any specific load obligation should focus on ensuring that adequate hedging is in place.

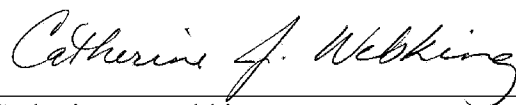
If any other type of obligation is place on the entities that provide power to customers at retail such as the proposed DEC program, it is vital that such a product have a competitively neutral, centralized clearing mechanism with a requirement that all suppliers of the new product offer their supply of the product into that central procurement.

Backstop Reliability Service. The Commission has agreed to develop a backstop reliability service that will serve as a new dynamic and flexible reliability tool to prospectively target and meet specific reliability needs that will not be met by ERCOT's real-time and ancillary services market. The backstop reliability service will be used to procure accredited new and existing dispatchable resources to serve as an insurance policy to help prevent emergency conditions in ERCOT.

A backstop reliability service is consistent with Section 18 of Senate Bill 3 and should be implemented before any further consideration of an LSE obligation that would shift a very large percentage of the cost of power to a capacity payment. The Reliability Service should be implemented through an auction process conducted by ERCOT in a manner similar to the ERS program. It is important that this service also is targeted seasonally to address particular risks created by extreme weather. A particular focus of this service should be related to dual fuel capabilities in Winter -- much like the black start service.

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Respectfully submitted,



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ON BEHALF of JOINT REPs