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PROJECT NO. 52373

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

RAYBURN COUNTRY ELECTRIC COOPERATIVE, INC.'S COMMENTS ON THE COMMISSION'S AUGUST 2, 2021 QUESTIONS

Rayburn Country Electric Cooperative, Inc. ("Rayburn") files these Comments regarding the Public Utility Commission of Texas's ("Commission") August 2, 2021 Questions for Comment - Project Nos. 52268 and 52373 (the "August 2 Memo").

There is no single or simple fix to the problems that led to the Winter Storm Uri crisis. Rayburn urges the Commission to carefully consider both a wide array of potential measures to improve the Electric Reliability Council of Texas' ("ERCOT") ability to manage the grid in severe weather events and the balance between improved reliability and increased rates to the ultimate consumer resulting therefrom. It is unlikely that consumers can truly be shielded from the costs of improving the reliability of the grid — even costs imposed on generators are passed through power purchase agreements and the ERCOT market and ultimately lead to higher rates flowing through to consumers — and so it is critically important that changes made to the market be well-designed, transparently developed and implemented and based on careful research and analysis. While significant changes are undoubtedly necessary, such changes should be surgical in nature, to achieve the greatest benefit to reliability at the lowest reasonable cost. As is discussed herein, the Commission has many different levers it can pull to improve reliability, and it should carefully investigate all of them, and not give in to the temptation to lock in on a single solution too quickly.

Executive Summary

- The Commission should not focus solely on incentivizing existing and new dispatchable generation to the exclusion of other cost-effective methods of improving reliability, such as incentivizing energy storage technologies, enhancing demand response programs,

improving Emergency Response Service ("ERS"), and further integrating renewable generation.

- The price curve on the Operating Reserve Demand Curve ("ORDC") should not be increased, but the ORDC could be integrated into the Day-Ahead Market ("DAM"). The Commission should also consider implementing a regional or zonal scarcity price cap rather than the ERCOT-wide cap, and should consider lowering the High System-wide Offer Cap ("HCAP").

- A DAM minimum offer requirement should be carefully tailored and would complement an ORDC DAM structure.

- A more formal and robust demand response program for the ERCOT market could provide significant new resources to ERCOT and relieve pressure on the existing Emergency Response Service ("ERS") and Responsive Reserve Service ("RRS") programs.

- The ERS program could be strengthened by enhanced demand response and weatherization, by increasing the permitted duration for ERS contracts and an improved Reliability Must Run program.

- Greater accommodation of energy storage technologies could improve ERCOT's ability to manage inertia, voltage support, and frequency.

Background

Rayburn is a Texas-based not-for-profit generation and transmission electric cooperative that, through its four members,[1] provides power to approximately 225,000 consumers — of which about 90% are residential consumers — in Northeast Texas. Rayburn and its members are the sole providers of electricity to those consumers.

Rayburn's mission is to obtain, generate and transmit reliable and affordable energy to its members, that in turn deliver power to end-users. Rayburn obtains power from various sources to maintain lower power costs for its members, including through bi-lateral power purchase agreements from power suppliers, approximately 250 MW from the 1,000 MW Freestone Energy center, approximately 60MW from the 100MW U.S Army Corps of Engineers Denison

[1] Rayburn's member cooperatives are Fannin County Electric Cooperative, Inc., Farmers Electric Cooperative, Inc., Grayson-Collin Electric Cooperative, Inc., and Trinity Valley Electric Cooperative.

Hydroelectric Station, short-term bi-lateral hedges, renewables and purchases from the ERCOT market. Rayburn also owns and operates over 290 miles of transmission lines in Texas located entirely within ERCOT.

Within the ERCOT market, Rayburn operates as a Load Serving Entity ("LSE"), a Qualified Scheduling Entity ("QSE"), a Transmission and Distribution Service Provider ("TSDP") and a Congestion Revenue Right ("CRR") Account holder.

During the week of February 13–20, 2021, Winter Storm Uri hit Texas with devastating consequences. The severe winter storm, when combined with the weaknesses in the current ERCOT market design and mismanagement of the grid, caused a cascading chain of events that left the grid minutes away from complete collapse, threw Texans into dangerous, life-threatening long-duration blackouts and led to previously unimaginable costs being imposed on market participants and ultimately their consumers.

Rayburn thanks the Commission for the opportunity to submit these written comments and looks forward to participating in the Commission's review of the Texas wholesale market design. In this document, Rayburn provides its initial comments on the topics requested by the Commission, it reserves the right to provide further comments on these and any other topics as this proceeding progresses.

I. Preliminary Considerations

As the Commission evaluates proposals to overhaul Texas' electricity market, Rayburn urges the Commission to be sensitive to costs that will ultimately be passed on to end-use consumers. To prevent the types of systemic failures that occurred during Winter Storm Uri, the Commission should assess a broad range of cost-efficient measures. The Commission should consider not only incentivizing new generation to be built in ERCOT, but also the additional

benefits of incentivizing new energy storage technologies, refining scarcity pricing concepts, enhancing demand response programs, improving ERS, and further integrating renewable generation, all of which could play a role in improving reliability while keeping costs to ratepayers as low as reasonably possible. Rayburn also encourages the Commission and the parties to this proceeding to revisit ERCOT's basic market rules, including the rules governing notice and rule changes, in order to improve the ability of market participants to advise on, anticipate, understand, hedge, and appropriately respond to changes being implemented by ERCOT. Critically, the Commission should utilize this proceeding to restore regulatory certainty among ERCOT's stakeholders.

II. Response to Specific Commission Questions

In its August 2 Memo, the Commission set forth six questions on which it seeks comment from stakeholders. The questions posed and Rayburn's responses thereto are as follows:

1. What specific changes, if any, should be made to the Operating Reserve Demand Curve (ORCD) to drive investment in existing and new dispatchable generation? Please consider ORDC applying only to generators who commit in the day-ahead market (DAM). Should that amount of ORDC-based dispatchability be adjusted to specific seasonal reliability needs?

Rayburn does not oppose certain adjustments to the ORDC. Rayburn supports integrating the ORDC into the DAM, but a DAM offer requirement should be imposed on generators in order to accurately reflect available reserves. Rayburn believes that seasonal charges are already inherently applied by the seasonal means and standard deviation values that ERCOT provides for its seasonal Loss of Load Probability ("LOLP") values. If seasonal statistics are included in LOLP (including standard deviations), there is no need to conduct a seasonality analysis. Rayburn recommends including the data statistics from Winter Storm Uri in the LOLP analysis. If ERCOT

includes Winter Storm Uri in the winter values, those values should reflect an increased LOLP and ERCOT should apply the ORDC appropriately at various levels of reserves.

Reliability issues should not be addressed entirely by incentives to investment in new generation. As discussed in response to Question 4, there are a myriad of measures to existing generation resources and other options to enhance system reliability. The Commission should also consider whether a regional or zonal scarcity price cap is more appropriate rather than the current ERCOT-wide cap. The scarcity pricing cap should be adjusted depending on the types of required emergency resources, and any changes to scarcity pricing policy should ensure that excessive charges are not foisted onto ratepayers, particularly under circumstances where ERCOT is unable to keep the lights on and generators are unavailable and unable to respond to price signals. The price curve on the ORDC should not be increased. The $9,000/MWh HCAP was not an effective mechanism for inducing generation to come into the market during Winter Storm Uri — where demand far exceeded available supply not because of capacity insufficiency but due to an unprecedented level of generator outages and derates. A significant amount of generation was simply unavailable and unable to respond at any price. In order to prevent severe economic harm to ratepayers in such situations, the HCAP should be substantially lowered, including potentially to $4,500/ MWh.

2. Should ERCOT require all generation resources to offer a minimum commitment in the day-ahead market as a precondition for participating in the energy market?
    a. If so, how should that minimum commitment be determined?
    b. How should that commitment be enforced?

Day-ahead offer requirements cannot be readily adapted into the ERCOT market absent a wholesale market redesign, and while the Commission should carefully consider a DAM minimum commitment requirement, such a requirement needs to be carefully tailored. Due to its unique market characteristics, the ERCOT market has fewer vertically integrated LSEs and Investor-

Owned Utilities ("IOUs") than other markets. A rule requiring day-ahead commitments would be particularly onerous on generators that are also LSEs, and if no corresponding adjustment is made, it would require those market participants to maintain significantly more collateral to participate in the Day-Ahead Market.

If ERCOT were to proceed with day-ahead offer requirements, the rule should incorporate a requirement that is tied to a percentage of load. QSE's with a high percentage of load should be required to offer a greater share of generation into the Day-Ahead Market. Furthermore, under this framework, ERCOT should consider penalizing QSEs that do not offer enough or all of their available generation at Index plus price times quantity short. Penalty charges are appropriate to incentivize generators to ensure their units are available despite weather challenges, and should be designed to reasonably accommodate various types of resources. As a potentially low-cost option, the Commission should also consider refining the Reliability Unit Commitment ("RUC") process to clearly establish the process' parameters, requirements, and operational procedures. The RUC process should be used judiciously to address reliability issues, but it could provide system reliability with less onerous financial impacts on LSEs. Overall, the Commission should evaluate multiple options for improving the Day-Ahead Market while balancing the need for reliability with ensuring that charges to ratepayers are not excessive.

3. What new ancillary service products or reliability services or changes to existing ancillary service products or reliability services should be developed or made to ensure reliability under a variety of extreme conditions? Please articulate specific standards of reliability along with any suggested AS products. How should the costs of these new ancillary services be allocated.

Rayburn supports ERCOT's implementation of a price cap to existing ancillary service products or reliability services in the Day-Ahead Market to be consistent with the energy products.

Rayburn reserves the right to comment further on this issue as it develops further in this proceeding.

4. Is available residential demand response adequately captured by existing retail electric provider (REP) programs? Do opportunities exist for enhanced residential load response?

During Winter Storm Uri, there was a demand response effort that proved helpful during the initial phase of the crisis, however, much of the available demand response was exhausted by the end of the first day of the crisis, and significant amounts of residential demand response remain untapped. The development of a more robust market for demand response and distributed energy resources could provide significant new low-cost resources to ERCOT to manage such crises in the future. The Commission should also consider demand response products of various durations. Demand response programs should remain voluntary and provide end-use customers reasonable compensation for the service being provided. Further, a more formal demand response market could enhance the existing ERS and RRS programs.

5. How can ERCOT's emergency response service program be modified to provide additional reliability benefits? What changes would need to be made to Commission rules and ERCOT market rules and systems to implement these program changes?

The ERS program could be strengthened in numerous ways. First, the ERS program could be coupled with a more formal demand response program. More active use of demand response leading up to emergency events would allow less frequent use of ERS resources, which could then be held in reserve for greater emergency conditions. Second, increased weatherization measures keeping more plants on line would also relieve pressure on the ERS resources. The Commission should require ERCOT market participants to devote additional resources to the weatherization of existing power plants to improve reliability and resilience when system conditions are most challenging and demand is highest. ERCOT's demand response and weatherization remain less robust than is found in other RTOs, and this causes it to require higher levels of ERS resources.

Third, the Commission should consider increasing the duration permitted for ERS contracts. During the Winter Storm Uri event, the ERS availability under the Protocols was largely depleted after approximately 12 hours, but the potential for greater ERS exists. Relatedly, the Commission should also evaluate ERCOT's system for retiring generating capacity and review the Reliability Must Run ("RMR") process. RMR agreements with generation facilities that would otherwise be shuttered could provide a higher margin that would ensure sufficient generation during extreme weather events.

In the evaluation of the many options for enhancing ERCOT's ERS program, the Commission should require ERCOT to evaluate the specific approach to load shed to ensure least cost impact and that it does not impact critical energy and other infrastructure.

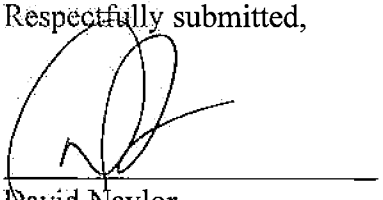
6. How can the current market design be altered (e.g., by implementing new products) to provide tools to improve the ability to manage inertia, voltage support, or frequency?

Greater accommodation of energy storage resources in the market could improve ERCOT's ability to manage these issues. Rayburn reserves the right to comment on this issue as it develops further in this proceeding.

Conclusion

The Commission should consider all of the various levers available to it to address the market problems that led to the Winter Storm Uri crisis and base its ultimate market redesign on robust analysis conducted in a transparent process that ensures the changes made to the market ensure the reliability of the grid without imposing excess costs on consumers.

Respectfully submitted,



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