



Control Number: 52373



Item Number: 337

Peter M. Lake
Chairman

Will McAdams
Commissioner

Lori Cobos
Commissioner

Jimmy Glotfelty
Commissioner



Greg Abbott
Governor

Thomas J. Gleeson
Executive Director

2022 JAN 26 PM 2:21

Public Utility Commission of Texas

TO: Peter M. Lake, Chairman
Will McAdams, Commissioner
Lori Cobos, Commissioner
Jimmy Glotfelty, Commissioner

All Parties of Record

FROM: Lorenzo Z Garcia
Commission Advising

A handwritten signature in black ink, appearing to be "LZ Garcia", written over the printed name.

DATE: January 26, 2022

RE: *Review of Wholesale Electric Market Design*, Project No. 52373, Commissioner
Memos, January 27, 2022 Open Meeting, Item No. 6

Please find enclosed memoranda by commissioners McAdams and Cobos regarding the above-referenced project. No other commissioner will file a memorandum in this project.

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Public Utility Commission of Texas

Commissioner Memorandum

TO: Chairman Peter M. Lake
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty

FROM: Commissioner Will McAdams 

DATE: January 26, 2022

RE: January 27, 2022 Open Meeting – Agenda Item No. 6, Docket No. 52373 – *Review of Wholesale Electric Market Design*

On January 10, 2022, ERCOT filed its response to the Commission's market design blueprint and requested our input on the firm fuel product.

I believe the firm fuel product should be implemented in a two-phase approach. PURA § 39.159(b) explicitly states that the Commission "shall ensure that the independent organization certified under Section 39.151 for the ERCOT power region . . . procures ancillary or reliability services on a competitive basis to ensure appropriate reliability during extreme heat and extreme cold weather conditions." Section 39.159(c) further clarifies that "the Commission shall ensure that . . . winter resource capability qualifications for a service described by Subsection (b) include on-site fuel storage, dual fuel capability, or fuel supply arrangements to ensure winter performance for several days."

To comport with the law, I believe phase one should target natural gas generation with existing on-site storage or dual-fuel capacity of at least two days nameplate capacity with an implementation goal of the winter of 2023. Phase one firm fuel qualifying generation should be procured through a direct request for proposal process with a budget limit and a cost cap, similar to the Emergency Response Service. Additionally, during cold weather events, qualifying resources should have a must offer requirement in the day-ahead market. Costs associated with this ancillary service should be assigned on a load ratio share basis.

Phase two should be used to answer larger questions around the firm fuel product with an implementation goal of the winter of 2024:


- Should firm transport or off-site storage be eligible and what would qualify as "firm transport"?
- How much growth in firm fuel resources should we target?
- Would the product best be implemented as an ERS-like program? An ancillary service? Or as an adder?

I look forward to discussing this matter with you at the open meeting.

Public Utility Commission of Texas

Memorandum

TO: Chairman Peter M. Lake
Commissioner Will McAdams
Commissioner Jimmy Glotfelty

FROM: Commissioner Lori Cobos 

DATE: January 26, 2022

RE: January 27, 2022 Open Meeting – Agenda Item No. 6
Project No. 52373 – *Review of Wholesale Electric Market Design*

During the past several months, the Commission diligently held many public work sessions and received thousands of pages of comments from stakeholders, experts, and the public that ultimately enabled the Commission to approve a blueprint of market reforms on December 16, 2021. The Commission's blueprint sets forth phased-in market reforms that will provide the state with a spectrum of enhanced grid reliability and resiliency. As stated at the January 13, 2022 Open Meeting, it is now critically important that the Electric Reliability Council of Texas (ERCOT) implement the Phase I market reforms in the Commission's blueprint as soon as possible.

Specifically, it is imperative that ERCOT stay on track to timely deliver the enhanced Ancillary Services in Phase I of the Commission's blueprint, including Loads in Non-Spinning Reserve Service, Fast Frequency Response Service, and ERCOT Contingency Reserve Service (ECRS), within the implementation timelines, if not earlier, that were set forth in ERCOT's Market Design Letter filed on January 10, 2022.¹ Furthermore, pursuant to the legislative mandate in Senate Bill 3 (SB 3) and the Commission's direction at the January 13, 2022 Open Meeting, ERCOT must prioritize the implementation of a Firm Fuel Product so that the new product is in the market by next winter to provide additional grid reliability and resiliency during extreme cold weather in the future.

Firm Fuel Product – Phased-In Implementation

Pursuant to the Commission's direction at the last open meeting, ERCOT is preparing a draft Nodal Protocol Revision Request (NPRR) to create a Firm Fuel Product that will be filed by ERCOT staff on an urgent basis. Importantly, ERCOT's urgent NPRR will need to be approved by the ERCOT Board of Directors in March so that ERCOT staff can begin working on its settlement systems to accommodate the new product.² In order to ensure that the Firm

¹ *Review of Wholesale Electric Market Design*, Project No. 52373, ERCOT's Market Design Letter (Jan. 10, 2022) (Attachments A and B).

² ERCOT's draft NPRR will address the settlement process associated with creating the Firm Fuel Product.

Fuel Product is brought into the market in an efficient, scalable, phased-in manner by next winter, I would recommend that the Commission provide the following additional direction to ERCOT at this time:

Procurement

- ☐ ERCOT should harness the efficiencies of its existing competitive Request for Proposal (RFP) framework that it currently uses to procure Emergency Response Service (ERS) and Black Start Service to procure the Firm Fuel Product.
- ☐ ERCOT should procure the product in a phased-in manner, which would require ERCOT to issue its first RFP no later than August 2022 to send a price signal to the market and launch the product by next winter. ERCOT can then issue subsequent RFPs to continue scaling the product into the market for the following winters.
- ☐ Similar to ERCOT's Black Start Service contracts, ERCOT should enter into two-year contracts with generation resources that are selected and accredited in the competitive RFP process.

Eligibility

- ☐ Pursuant to SB 3, winter resource capability qualifications for the Firm Fuel Product should include gas generation with dual fuel capability and on-site fuel storage.³

Duration

- ☐ Pursuant to SB 3 that requires this service to provide winter performance for several days, the Firm Fuel Product should consist of a minimum two-day (i.e., 48 hour) duration requirement.⁴

Cost Allocation

- ☐ Similar to ERCOT's existing cost allocation practices, ERCOT should allocate the costs associated with the Firm Fuel Product on a Load Ratio Share basis.

Payment

- ☐ Similar to ERCOT's existing payment processes, ERCOT should pay the selected generation resources on a quarterly or block period basis for efficiency purposes in the settlement process.

Penalty

- ☐ Selected generation resources should be subject to a stringent penalty and payment claw back for failure to perform.

I look forward to discussing these important matters with you at tomorrow's open meeting. Thank you for your consideration.

³ PURA § 39.159(c)(1)-(2) ("The commission shall ensure that winter resource capability qualifications for a service described by Subsection (b) include on-site fuel storage, dual fuel capability, or fuel supply arrangements to ensure winter performance for several days.").

⁴ *Id*