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Item Number: 364

Public Utility Commission of Texas

Memorandum

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

FROM: Commissioner Lori Cobos 

DATE: April 20, 2022

RE: April 21, 2022 Open Meeting – Agenda Item No. 15
Project No. 52373, *Review of Wholesale Electric Market Design*

On March 8, 2022, Commission Staff filed a request for written comments on policy questions that need to be addressed to guide ERCOT’s first request for proposal (“RFP”) for the initial procurement of a Firm Fuel Supply Service (“FFSS” or “firm fuel product”) that is being developed as part of the Commission’s Phase I market reforms.¹ Based on my review of the stakeholders’ comments and ERCOT’s survey results from generation resource owners and feedback, I would recommend that the Commission provide the following policy direction to ERCOT for the first RFP to ensure the product is in the market by the upcoming 2022/2023 winter season to enhance grid reliability and resiliency during extreme cold weather as required by Senate Bill 3 (“SB 3”).

Eligible Resources

1. What attributes should be required for a resource to be eligible to provide FFSS?

In order to implement the FFSS by this next winter, eligible resources for ERCOT’s first RFP for the initial FFSS procurement should consist of dual fuel capable generation resources with on-site alternative fuel storage and generation resources that own and control the pipeline to a storage facility. For purposes of ERCOT’s subsequent RFPs, fuel supply arrangements consisting of off-site storage with firm transportation contracts should be included if the appropriate regulatory assurances and safeguards are in place and ERCOT has had an opportunity to appropriately survey generation resource owners to gauge the potential amount and location of these arrangements.

2. What sustained duration of FFSS should ERCOT procure?

At this time, based on ERCOT’s survey results from generation resource owners, a FFSS with a 48-hour sustained duration requirement would allow ERCOT to capture more generation resources in the first RFP. A 48-hour sustained duration requirement would also help mitigate

¹ *Wholesale Electric Market Design Implementation*, Project No. 53298, Commission Staff Memorandum (Mar. 8, 2022) (Commission Staff’s questions are addressed in a sequence that will facilitate more efficient discussion of the Commission’s decision points)

consumer cost impacts, while complying with the duration requirements in SB 3. The product's sustained duration requirement can be scaled up to 72 hours in ERCOT's subsequent RFPs as the product is scaled into the market.

3. What should be the minimum sustained duration for an eligible resource, if not the full sustained duration?

As discussed above, the minimum sustained duration requirement for eligible resources is 48 hours. SB 3 requires that the product ensure winter performance for several days. ERCOT's subsequent RFPs can scale up the sustained duration requirement to 72 hours as the product is phased into the market.

FFSS Procurement Process

4. What quantity of FFSS should ERCOT procure? Should it be measured in terms of monetary budget or generation capacity over the specified duration?

Based on ERCOT's survey results from generation resource owners, there are currently approximately 4,000 MW² of existing dual fuel capable generation resources with on-site alternative fuel storage with a 48-hour duration and potentially another 2,909 MW of dual fuel capable generation resources with some infrastructure to use on-site alternative fuel storage for a 48-hour duration that is in various conditions. ERCOT's survey results also state that there are an additional 796 MW where generation resources own and control the pipeline to a storage facility of which approximately 550 MW would be available at full capacity.

Given ERCOT's survey information, ERCOT should procure between 4,000 and 5,000 MW of FFSS in the first RFP. This initial amount will help ensure a higher level of resiliency this next winter and will help mitigate consumer cost impacts. ERCOT's subsequent RFPs for future winter seasons can include a higher amount as deemed appropriate by the Commission.

5. What is the appropriate contract term for initial FFSS procurements? Should subsequent procurements have a different contract term?

The contract term for the initial FFSS procurement should be for one year. A one-year contract term for the initial RFP would help facilitate timely implementation of the product by this next winter and would allow other generation resources to be scaled into the product in subsequent RFPs for future winter seasons. After the first RFP for this next winter, ERCOT's subsequent RFPs for future winter seasons should be for multi-year contracts in order to continue sending a strong signal to the market for additional investment in resiliency.

² ERCOT's survey results state that there are 4,441 MW of existing dual fuel capable generation resources with on-site alternative fuel storage with a 48-hour duration. However, approximately 400 MW are currently enrolled in ERCOT's Black Start Service.

Procurement Price

6. How should the price awarded to each FFSS Resource (“FFSSR”) be determined?

The price awarded to each FFSSR should be based on a single clearing price for market efficiency purposes. In order to provide further cost containment measures, ERCOT and the ERCOT Independent Market Monitor (“IMM”) should review the submitted bids and remove any outlier bids that could drive up the overall cost of the product.

Below is a table summarizing my recommendations for ERCOT’s first and second RFP:

	1st RFP	2nd RFP
RFP Issuance	August 1, 2022	1 st quarter of 2023
Eligible Resources	Dual-fuel capable with on-site alternative fuel storage and arrangements where a generation resource owner owns and controls the pipeline to a storage facility	Dual-fuel capable with on-site alternative fuel storage. arrangements where a generation resource owner owns and controls the pipeline to a storage facility, and fuel supply arrangements consisting of off-site storage facilities with firm transportation contract, if possible, as discussed above
Duration	48 hours	72 hours
Quantity	4,000 to 5,000 MW	Potentially, 6,000 to 7,000 MW
Contract Term	1 year (winter 2022/2023)	2 years (winter 2023/2024 and winter 2024/2025)
Price	Single clearing price	Single clearing price

Finally, I would also request that ERCOT work with Commission Staff in developing the first draft RFP to ensure that the Commission’s policy guidance is appropriately captured in the RFP.

Thank you for your consideration. I look forward to discussing these important policy issues with you.