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PROJECT NO. 52373

REVIEW OF WHOLESALE ELECTRIC  
MARKET DESIGN

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PUBLIC UTILITY COMMISSION  
OF TEXAS

TEXAS PUBLIC POWER ASSOCIATION'S COMMENTS  
ON SELECTION OF PHASE II MARKET DESIGN CONSULTANT

The Texas Public Power Association (TPPA) is the statewide association for the 72 municipally-owned utilities (MOUs) in Texas. TPPA membership also includes several electric cooperatives and joint actions agencies, as well as the Lower Colorado River Authority. TPPA members serve urban, suburban, and rural Texas and vary in size from large, vertically-integrated utilities to relatively small distribution-only systems. We are proud to serve approximately 5.1 million Texans across the state. MOUs offer a long track record of stability, and we serve an essential role in providing secure and reliable power to the wholesale electricity markets in these regions, including ERCOT. Many of our member systems have been providing stable and reliable electric power to communities in Texas for over 100 years, and collectively, our members provide more than 13,800 MW of generation and maintain nearly 8,500 miles of high-voltage transmission assets.

TPPA has closely watched the Commission's market design work, having submitted comments several times in this project.<sup>1</sup> Now that the Commission has selected Energy and Environmental Economics, Inc. (E3) as the Commission's market design contractor, TPPA submits the following comments for the Commission to consider as E3 begins its work. TPPA looks forward to working with E3 to develop market design plans that promote additional reliability, while still retaining the low-cost energy market that has encouraged millions of people and businesses to move to Texas.

**I. Understanding Cost to Consumers and the Market**

As TPPA has consistently noted in its previous comments,<sup>2</sup> the Commission must ensure that the contractor it selects provides detailed information about the costs and benefits of any potential new market reforms. To this end, the Statement of Work in the Commission's contract with E3 specifically states that E3 must "provide estimated implementation and consumer cost analysis associated with the Blueprint's market reforms."<sup>3</sup> Further, E3 must provide "a cost/benefit analysis that addresses expected reliability

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<sup>1</sup> See *Review of Wholesale Electric Market Design*, Project No. 52373, Texas Public Power Association's Response to Staff's Questions for Comment (Nov. 1, 2021) and Texas Public Power Association's Response to Proposed Phase II Market Design Principles (Dec. 10, 2021).

<sup>2</sup> *Id.*

<sup>3</sup> *RFP for Consulting Services Relating to the Electric Market Design Blueprint*, Project No. 52373, Electric Market Design Blueprint Executed Contract at 22 (May 10, 2022) ("Executed Contract").

outcomes, implementation and consumer cost impacts in ERCOT's competitive retail market, and potential impacts on future monetary investment in dispatchable generation."<sup>4</sup>

Broadly speaking, TPPA agrees with this approach. However, TPPA is concerned that E3 may only focus on consumer cost impacts to customers served by retail electric providers (REPs), without analyzing how these proposals might affect retail service provided by MOUs or electric cooperatives. As such, E3's analysis may not fully consider customers in both major cities and rural areas and fail to account for certain statutory and regulatory requirements that apply only to MOUs and electric cooperatives. Such an incomplete analysis may lead to severe unintended consequences and costs to customers. TPPA recommends that the Commission ensure that E3 provide a fuller analysis, including impacts on all retail customers in the ERCOT region.

To this end, TPPA echoes several suggestions it previously made concerning what the Commission should look for in a cost benefit analysis:

- The analysis should be written in plain language, with a full explanation of the proposal analyzed. A detailed explanation of the assumptions made in a particular analysis reduces the possibility of miscommunication about the specific proposal being discussed, helps build consensus, and increases public understanding.
- The analysis should present any proposal's costs in terms of what an individual residential customer should expect to pay (given average usage),<sup>5</sup> in addition to the total cost of implementation. Customers and the Commission should be able to evaluate the bottom-line impact in dollars and cents in a measurable way, which is critical in weighing whether the expected reliability benefits of a particular policy justify that cost.
- The analysis of each proposal should quantify the reliability benefits in terms of the level of dispatchable resource capacity expected to be maintained or newly constructed. Merely suggesting that a particular proposal will increase new investment or increase profitability of existing resources (thereby stalling retirements) should not be adequate – the Commission should insist on actual projections that can then be used to provide robust metrics against which a proposal's outcomes can be measured.
- The analysis should incorporate the changes the Commission and ERCOT have already worked to implement, including modifications to the high system-wide offer cap, ancillary

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<sup>4</sup> Executed Contract at 25 (internal numbering omitted).

<sup>5</sup> To that end, TPPA was appreciative that Chairman Lake presented the cost of ERCOT's additional procurement of reserves as a "per customer, per month" figure during the recent PUC-ERCOT press conference.

services procurement, emergency response service deployment, and fast-tracking of ERCOT's interconnection queue.

## **II. Understanding Knock-On Effects of Related Policies**

The ERCOT grid is incredibly complex, with thousands of individual market participants working with the system operator to ensure constant stability in frequency, despite variation in both demand and generation. The Commission's Phase II market design work will make fundamental alterations to many of the inputs in this market. Therefore, the Commission should ensure that E3's work reflects the ripple effects that adjusting one variable can have on other areas.<sup>6</sup> As such, the Commission should require E3 to study how the Phase II market design work will affect existing ERCOT market elements (such as the Operating Reserve Demand Curve) and ensure that market-based solutions are implemented to replace out-of-market actions (such as ERCOT's increased use of Reliability Unit Commitments and more aggressive approach to procuring ancillary services). It is possible that certain market elements may require substantial modifications to better fit with the Phase II elements, and vice versa. The Commission should also require E3 to consider the effects of any reprioritization of the existing ERCOT project queue, including whether major initiatives already approved and in flight need to be delayed or should move forward. If E3 does not perform this holistic analysis, there could be substantial issues in implementation, especially if certain market elements end up working at cross-purposes.

## **III. Allowing for Robust Opportunities for Public Input and Review**

Per the executed contract, one of E3's deliverables will be to gather input from Commission Staff and ERCOT to inform its evaluation of the market design and structure reforms.<sup>7</sup> TPPA is concerned that this could be read to preclude input from other parties. Instead, the Commission should direct E3 to solicit input from all stakeholders, including OPUC and other organizations representing the public interest and ratepayers.

Further, E3 will be required to submit a Final Report to the Commission that provides their recommendations for Phase II market design.<sup>8</sup> TPPA requests that, before the Commission takes any

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<sup>6</sup> Under the Executed Contract, E3 is only required to perform such an analysis for the Backstop Reliability Service ("The Backstop Reliability Service should . . . [b]e analyzed in conjunction with other long-term market design enhancements." Executed Contract at 25). Similar instructions do not appear to be specifically listed for the Load-Side Reliability Mechanism.

<sup>7</sup> Executed Contract at 26.

<sup>8</sup> *Id.*

formal action on this Final Report, the Commission open a comment period so that stakeholders and the public are able to provide robust and detailed feedback.<sup>9</sup>

#### IV. General Concerns

At this stage, TPPA has three broad concerns with the proposed Phase II market design policies – qualification of resources, cost allocation, and market power abuse.

Qualification of Resources. Texas is a national leader in many sources of electric generation, both dispatchable and non-dispatchable. As recently noted by Governor Abbott, “we’ve got to be clear that all forms of energy are essential.”<sup>10</sup> At the same time, the Legislature has specifically directed the Commission to ensure that resources that provide reliability services during extreme heat and cold weather conditions and times of low non-dispatchable power production are dispatchable and are able to meet continuous, seasonally appropriate operating requirements.<sup>11</sup> While TPPA understands that different resource types should be valued and qualified differently depending on how they operate in the market, TPPA believes that the Commission should look at market design holistically. The wholesale market design should ensure that all types of resources are able to participate and that they are given the appropriate value, which would promote reliability on least cost principles.

Cost Allocation. At least one market design proposal under consideration provides that costs should be allocated among both load and resources. TPPA is concerned that this could result in double allocation of costs toward vertically-integrated utilities (including some MOUs). The Commission should ensure that costs are fairly borne by market participants, without certain segments being forced to bear more than their fair share.

Market Power Abuse. E3 will develop a turnkey Load-Side Reliability Mechanism that can be fully operational and functioning within one year of Commission adoption.<sup>12</sup> E3 will also develop a turnkey Backstop Reliability Service that can be fully operational and functioning by Summer 2023.<sup>13</sup> Given this rapid turnaround, it is unlikely that there will be much opportunity for iterative processes and

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<sup>9</sup> For instance, TPPA notes that during the Commission’s hearings on resource adequacy in 2011-12, stakeholders were given the opportunity to directly ask questions of the Commission’s contractor to which the contractor posted written responses. *See Commission Proceeding Regarding Policy Options on Resource Adequacy*, Project No. 40480, Notice of Workshop (June 27, 2012). *See also* Project No. 40480, ERCOT’s Submission of ERCOT’s and The Brattle Group’s Presentations, and the Brattle Group’s Responses to Entities’ Technical Questions to be Addressed at the July 27, 2012 Commission Workshop (July 26, 2012).

<sup>10</sup> Jeremy Wallace, Gov. Greg Abbott touts renewable energy in speech to U.S. business leaders, *Houston Chronicle*, Mar. 6, 2022. <https://www.houstonchronicle.com/politics/texas/article/Gov-Greg-Abbott-touts-renewable-energy-in-speech-17034702.php>

<sup>11</sup> PURA § 39.159(b)-(c).

<sup>12</sup> Executed Contract at 23.

<sup>13</sup> Executed Contract at 24.

testing. As such, the Commission should continue to work with the Independent Market Monitor to identify and prosecute any potential instances of market power abuse.

## V. Conclusion

TPPA appreciates the opportunity to submit these comments. As always, TPPA looks forward to working with the Commission, its staff, and the stakeholders on these important questions and this broader discussion in the coming months.

Dated: May 25, 2022

Respectfully,



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**PUBLIC UTILITY COMMISSION  
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**EXECUTIVE SUMMARY OF TPPA'S COMMENTS ON SELECTION OF PHASE II  
MARKET DESIGN CONSULTANT**

TPPA is enthusiastic about working with E3 as it develops its Phase II market design recommendations, but TPPA recommends that the Commission ensure that E3:

- Study the effects of its Phase II recommendations on all customers, not just those served by REPs.
- Produce a cost-benefit analysis that is written in plain language with a full explanation of the proposal analyzed, includes a presentation of both total costs and expected per-customer costs, quantifies the reliability benefits in terms of the level of dispatchable resource capacity expected to be maintained or newly constructed, and incorporates the market design changes the Commission and ERCOT have already worked to implement.
- Report on how its Phase II recommendations affect existing and near-term market elements and whether these programs would replace out-of-market actions with market-based solutions.

Further, TPPA asks that the Commission allow for robust opportunity for public input and review on E3's recommendations, including opening a comment period before the Commission takes any formal action on E3's report.

Finally, TPPA requests that the Commission look at market design holistically to ensure that all types of resources are able to participate and that costs are fairly borne by market participants. TPPA also requests that the Commission continue to work with the Independent Market Monitor to identify and prosecute any potential instances of market power abuse.