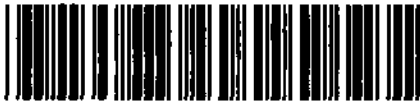




Control Number: 52373



Item Number: 407

Public Utility Commission of Texas


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Memorandum

2023 AUG -2 PM 12: 57

PUBLIC UTILITY COMMISSION
FILING CLERK

TO: Interim Chair Kathleen Jackson
Commissioner Will McAdams
Commissioner Jimmy Glotfelty

FROM: Commissioner Lori Cobos 

DATE: August 2, 2023

RE: August 3, 2023 Open Meeting
Agenda Item No. 20, Project No. 52373, *Review of Wholesale Electric Market Design*
Agenda Item No. 21, Project No. 53298, *Wholesale Electric Market Design Implementation*

As discussed in my January 18, 2023 memo, I believe that near-term action should be taken to help retain our existing long-duration dispatchable thermal generation fleet that is necessary to maintain reliability during multi-day extreme weather conditions.¹ One of the primary goals of this near-term action should be to leverage a market-based tool to incent self-commitment by generation resources in the real-time market so that ERCOT can reduce its use of reliability unit commitments (RUC). This past legislative session, the Texas Legislature passed and the Governor signed into law House Bill (HB) 1500, which includes a robust package of broad market reforms to incent new dispatchable generation investment and ensure long-term resource adequacy.

As stated in my prior memo, I believe that reducing RUC is important, because RUC is an out-of-market action that has a distortionary economic impact on the market and has a deteriorating physical impact on long-duration thermal generation assets that are necessary for reliable operations during multi-day extreme weather conditions. While ERCOT's current RUC practices may provide short-term reliability benefits, this "physical operational pressure" may ultimately come at a long-term reliability cost by speeding up the retirement of older, long-duration dispatchable thermal generation units that are needed on the system to help maintain reliability until these generation units can be replaced with new dispatchable generation plants.² Therefore, ERCOT's existing RUC practices should be reduced and ultimately replaced with market-driven processes to help preserve these valuable long-duration thermal generation assets.

¹ Project No. 52373, *Review of Wholesale Electric Market Design*, Commissioner Cobos Memorandum at 1 (Jan. 18, 2023); Project No. 53298, *Wholesale Electric Market Design Implementation*, Commissioner Cobos Memorandum at 1 (Jan. 18, 2023).

² *Id.* at 2.

After a robust deliberation on near-term bridge solutions, at the January 19, 2023 open meeting, the Commission directed ERCOT Staff to evaluate and provide to the ERCOT Board of Directors (ERCOT Board) a menu of options to ensure reliability with minimal RUCs through the use of an ancillary service or some combination of existing market-based tools that could serve as a bridge.³ In response, on April 18, 2023, the ERCOT Board recommended Operating Reserve Demand Curve (ORDC) price floor adders as a bridge solution pursuant to the recommendation provided by ERCOT Staff and a majority of Technical Advisory Committee (TAC) members.⁴ The ERCOT Board's recommended bridge solution is now before the Commission for consideration.

If the Commission approves the ERCOT Board's recommended bridge solution, I recommend that the Commission require ERCOT to track the effectiveness of the ORDC price floor adders and report its findings in its ORDC report that ERCOT is required to file at the Commission by November 1, 2024 pursuant to 16 TAC § 25.505, and subsequently, thereafter.⁵ Specifically, the Commission should require ERCOT to provide the following information in its report:

1. The amount of new revenue specifically resulting from the ORDC price floor adders;
2. The specific type of generation resources that received the new revenue from the ORDC price floor adders;⁶ and
3. Performance data showing whether the ORDC price floor adders have reduced ERCOT's use of RUC.

Based on this information, the Commission can then evaluate whether the ORDC price floor adders are serving their intended purpose.

In addition to the ORDC reporting requirements stated above, I recommend that the Commission evaluate the need for the ORDC price floor adders after ERCOT implements the Dispatchable Reliability Reserve Service (DRRS). HB 1500 requires ERCOT to implement DRRS by December 1, 2024 to account for market uncertainty, and ERCOT must develop criteria to ensure that RUC is reduced by the amount of DRRS that is procured by ERCOT.⁷ If

³ See Open Meeting Transcript at 27:17-28:25, 34:18-38:6, 103:13-105:6 (Jan. 19, 2023).

⁴ *Wholesale Electric Market Design Implementation*, Project No. 53298, Electric Reliability Council of Texas, Inc.'s Report and Recommendation on Bridge Solution, Attachment A Electric Reliability Council of Texas, Inc. Board of Directors Resolution (Apr. 20, 2023) (approving an enhancement to the ORDC using a multi-step floor to On-Line ORDC price adders with multi-step On-Line ORDC price adder floors of \$20 per MWh when Operating Reserve levels are equal to or less than 6,500 MW and \$10 per MWh when Operating Reserve levels are equal to or less than 7,000 MW and greater than 6,500 MW).

⁵ 16 TAC § 25.505(e) ("ERCOT must publish, by November 1 of every even numbered year, a report analyzing the efficacy, utilization, related costs, and contribution of the ORDC to grid reliability in the ERCOT power region.").

⁶ The IMM's 2022 State of the Market Report indicates that dispatchable thermal generation resources received 85% of ORDC revenue in 2022 (Table 9, "ORDC Revenue by Fuel Type").

⁷ See 88th Leg., R.S., HB 1500, Sec. 22 (amending PURA § 39.159 to add new subsections (d) and (e)); Sec. 51 (requiring the implementation of DRRS by December 1, 2024).

the Commission decides to evaluate the need for the ORDC price floor adders after ERCOT's implementation of DRRS, the Commission should conduct this evaluation at either six months and/or a year after DRRS implementation so that the Commission can assess how the ORDC price floor adders and DRRS have performed during at least one or two shoulder seasons and whether they are effectively reducing RUC.

Thank you for your consideration. I look forward to discussing this important matter with you.