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**PROJECT NO. 52373**

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

**STEERING COMMITTEE OF CITIES SERVED BY ONCOR AND TEXAS COALITION FOR AFFORDABLE POWER’S JOINT COMMENTS REGARDING REVIEW OF WHOLESALE ELECTRIC MARKET DESIGN**

The Steering Committee of Cities Served by Oncor (OCSC) and the Texas Coalition for Affordable Power (TCAP) jointly submit these Comments to the Public Utility Commission of Texas (Commission) regarding Project No. 52373, *Review of Wholesale Electric Market Design*. On August 2, 2021, the Commission requested comments from stakeholders to guide Commission Staff in preparing an agenda for the Commission’s work session on Market Design. Specifically, the Commission requested comments on the following questions:

1. What specific changes, if any, should be made to the Operating Reserve Demand Curve (ORDC) 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?
2. Should ERCOT require all generation resources to offer a minimum commitment in the [DAM] 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?
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?
4. Is available residential demand response adequately captured by existing retail electric provider (REP) programs? Do opportunities exist for enhanced residential load response?
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?
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?

The Commission requested comments from interested parties be filed by August 16, 2021. Therefore, these Comments are timely filed.

## I. EXECUTIVE SUMMARY

As requested,<sup>1</sup> OCSC and TCAP provide the following executive summary at the outset of their comments:

- The fundamental objective of the ERCOT market is to reliably deliver power at the lowest possible cost. Competitive market solutions should be implemented where possible.
- A fundamental principle of competitive electric markets is to shift financial risks from customers to capital markets and capital market participants. The Commission and ERCOT should maintain policies such that financial risks continue to be borne primarily in capital markets by capital market participants.
- Market and regulatory certainty combined with transparency of market design and operation enable robust market participation. All market and regulatory modifications should follow robust and transparent procedures that provide due process to stakeholders.
- The Commission should reassess the entire incentive structure of the Scarcity Pricing Mechanism instead of making adjustments to just one component, the ORDC. The ORDC, and the entire market construct, should apply equally to all market participants.
- The Commission should work with the Railroad Commission of Texas (RRC) to ensure there is adequate supply of critical natural gas at reasonable prices.
- The Commission should not implement rules that direct ERCOT to require all generation resources to offer a minimum commitment in the DAM as a precondition for participating in the energy market.
- OCSC and TCAP support ERCOT's initiatives regarding ancillary service products and reliability services that should be developed or made to ensure reliability under a variety of extreme conditions.
- OCSC and TCAP recommend discussion of new services for dual fuel supply or on-site fuel storage.

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<sup>1</sup> "Comments should be limited to a maximum of ten pages, and should include an executive summary." Memo from Connie Corona—Questions for Comment (Aug. 3, 2021).

- OCSC and TCAP support the expansion of cost-effective residential demand response programs where possible, and encourage the Commission to review standard energy efficiency programs as well. In particular, the Commission should explore adopting programs designed specifically to incentivize greater municipal participation.
- OCSC and TCAP are closely monitoring ERCOT's discussions and generally support ERCOT's actions regarding modifications to its emergency response service (ERS) program. OCSC and TCAP support a holistic review of all of the potential load response services, not restricted to the current ERS framework.
- The forthcoming implementation by ERCOT of its Fast Frequency Response (FFR) service will provide greater opportunity for Battery Energy Storage Resources to participate in providing reliability services. The Commission should prioritize eliminating barriers to the adoption of Energy Storage Resources.

## **II. COMMENTS**

OCSC and TCAP member cities (Cities) have been active participants in the design and oversight of the ERCOT market for most of the last two decades. Cities have participated in countless contested cases and rulemakings at the Commission. More than one hundred participating Cities are commercial consumer segment members of ERCOT, and representatives of Cities serve on the ERCOT Board of Directors, the Technical Advisory Committee (TAC), and other Subcommittees, Task Forces, and Working Groups. Throughout their participation at ERCOT, Cities have promoted a fundamental set of market principles:

- The fundamental objective of the ERCOT market is to reliably deliver power at the lowest cost;
- Where competitive market solutions are possible, power will be delivered at the lowest cost;
- Cities support competitive market solutions where possible;
- Achieving both reliable and economically efficient markets will necessarily involve tradeoffs;
- A fundamental principle of competitive electric markets is to shift financial risks from customers to capital markets and capital market participants;

- The Commission and ERCOT should maintain policies such that financial risks continue to be borne primarily in capital markets by capital market participants; and
- Market and regulatory certainty combined with transparency of market design and operation enable robust market participation; all market and regulatory modifications should follow robust and transparent procedures that provide due process to stakeholders.

Over the last twenty years, the market for electricity in ERCOT has delivered the lowest cost energy given the generation resources and transmission capacity available at any time. In this regard, the ERCOT market has served Cities and their communities well. However, Winter Storm Uri uncovered unacceptable weaknesses not only in the electric infrastructure across the State, but also in the competitive market. Winter Storm Uri represented one of the most significant challenges to the ERCOT market since the market opened, and put tremendous strain on the ability of municipalities and other political subdivisions to provide for public health, safety, and welfare. Cities provide essential first-responder services and critical public services that were hampered, and even incapacitated, by the power outages resulting from Winter Storm Uri.

In the aftermath of Winter Storm Uri, the 87th Texas Legislature and the Commission have made clear that ERCOT should be operated from a “reliability-first” posture. Cities applaud this approach. However, like other participants in the competitive market, Cities recognize that taking a more conservative approach to reliability may create trade-offs that offset efficient market outcomes. Cities caution that the Commission should take a holistic approach to its review of ERCOT market design. If the ERCOT system is to continue to operate as a competitive market, the Commission must assure that the fundamental principles of power delivery at lowest cost and financial risks borne through capital markets are not sacrificed. Preserving a modified market design that does not deliver competitive outcomes will not be in the best interests of Cities and their communities.

OCSC and TCAP caution that the Commission should not rush to redesign the ERCOT market without a full and thorough assessment. In the meantime, the Commission and ERCOT are implementing many improvements that will provide greater security in the winter of 2022 and beyond, including: addressing critical natural gas infrastructure; examining weatherization standards for power generation facilities; creating a power outage alert system; providing limitations on wholesale-indexed products and adding additional customer protection requirements surrounding expiration notices and default renewal products; adjusting the Scarcity

Pricing Mechanism rule to improve rules and protocols of the ERCOT wholesale electric market; improving coordination between the electric and gas industries; reviewing critical load standards and processes; adopting a more aggressive approach to operating the grid; adding new requirements for generation owners; assessing on-site fuel supplies; performing unannounced testing of generation resources; addressing transmission constraints in the Rio Grande Valley; eliminating barriers to distributed generation, energy storage, and demand response; evaluating the adequacy and needed quantity of ancillary services; conducting a study to gauge the impact of varying levels of wind and solar penetration; and more. OCSC and TCAP support these actions. Cities' concerns and experiences during Winter Storm Uri prompt their support for a holistic review of the wholesale electric market design, cautioning that the overarching principles identified above should still be maintained. OCSC and TCAP look forward to participating in the upcoming work sessions, requests for comments, and market design discussions.

In its Request for Comments, the Commission first asked about specific changes that should be made to the ORDC to drive investment in existing and new dispatchable generation. The ORDC failed during Winter Storm Uri, but more than that, the entire Scarcity Pricing Mechanism failed to provide sufficient incentive to assure that the generation fleet was prepared for weather extremes. The fundamental incentive structure of the Scarcity Pricing Mechanism—that operating at the High System-Wide Offer Cap (HCAP) during periods of scarcity will stimulate investment—also appears to have failed due to the extraordinary input prices charged by suppliers of critical natural gas. While OCSC and TCAP do not have a position at this time on specific modifications to the scope and magnitude of the ORDC, they are interested in considering proposals from market design experts. Regarding whether the ORDC should apply only to generators who commit in the DAM, OCSC and TCAP assert that the ORDC, and the entire market construct, should apply equally to all market participants. Adjusting the ORDC such that it only applies to dispatchable generation is premature. Fundamental economic principles acknowledge that an efficient energy market requires a single uniform price. These issues were thoroughly vetted in the original market design dockets. As noted above, among the challenges to the Scarcity Pricing Mechanism is the pricing of natural gas. If natural gas prices rise to extraordinary levels during times of electric scarcity—as occurred during the winter storm—the Peaker Net Margin (PNM) target will not provide the financial investment incentive that is the underlying purpose of the Scarcity Pricing Mechanism construct. The Commission's first priority should be working

with the RRC to ensure there is adequate supply of this critical input at reasonable prices. Further, the Commission should reassess the entire incentive structure of the Scarcity Pricing Mechanism instead of making adjustments to just one component, the ORDC.

Next, the Commission asked whether ERCOT should require all generation resources to offer a minimum commitment in the DAM as a precondition for participating in the energy market. OCSC and TCAP are opposed to this proposal. The DAM is a voluntary market that allows market participants to manage their market risk. Making the DAM mandatory imposes a capacity requirement on an energy-only market. If the Commission plans to consider capacity requirements, it should investigate those broadly, and not just as an add-on to the energy-only market design, which may lead to inefficient outcomes. OCSC and TCAP caution that adding mandatory capacity requirements into the energy-only market risks eliminating the purpose of the energy-only market construct—to reliably deliver power at the lowest possible cost to customers. As stated above, OCSC and TCAP realize that the Commission’s new “reliability-first” approach risks introducing market inefficiencies, so would emphasize again the necessity to review the wholesale electric market design from a higher level to determine how best to provide “reliability first,” while maintaining a market design that promotes the most efficient market outcomes. Further, a mandatory DAM requirement penalizes intermittent resources. While it is recognized that intermittent resources do not provide the same market characteristics as dispatchable resources, it was never intended that intermittent resources would provide a capacity guarantee. Imposing that policy now will only serve to penalize those resources. Intermittent resources are needed for the energy they provide, which helps supply electricity at low cost to customers. Opportunities to firm supply from intermittent resources are evolving with innovations in energy storage.

The Commission also requested comments regarding what new ancillary service products or reliability services, or what changes to existing ancillary service products or reliability services, should be developed or made to ensure reliability under a variety of extreme conditions. ERCOT has already undertaken initiatives in this area, which OCSC and TCAP support. For example, OCSC and TCAP support acceleration of the implementation of FFR service and ERCOT’s reprioritization of the ERCOT Contingency Reserve Service (ECRS), a new 10-minute ancillary service. These initiatives will provide greater opportunities for intermittent resources, possibly in conjunction with Battery Energy Storage Resources to provide reliability to the market. Further,

OCSC and TCAP welcome the discussion of new services for dual fuel supply or on-site fuel storage, recognizing that there can be safety and environmental concerns associated with storage that are of great interest to our communities. Cities also note that, for example, liquefied natural gas (LNG) requires electricity, and OCSC and TCAP again point to the natural gas supply constraints during Winter Storm Uri, and stress that in order to provide reliability, the Commission and RRC must be able to ensure the reliable delivery of natural gas.

Next, the Commission seeks to address whether available residential demand response is adequately captured by existing REP programs, and whether opportunities exist for enhanced residential load response. OCSC and TCAP support the expansion of cost-effective residential demand response programs where possible and look forward to reviewing the proposals in comments filed by experts in that area. In addition, the Commission should not ignore standard energy efficiency programs, which offer simple, low-cost solutions to reducing load and provide value to all types of customers, not only residential customers. The Commission should encourage the expansion of these energy efficiency programs and develop additional programs to incentivize participation by commercial and industrial customers. In particular, Cities urge the Commission to explore adopting programs designed specifically to incentivize greater municipal participation.

The Commission also requested comments regarding ERCOT's ERS program, and whether it can be modified to provide additional reliability benefits. OCSC and TCAP are closely monitoring ERCOT's discussions and actions regarding modifications to its ERS program, and generally support NPRR1090, *ERS Winter Storm Uri Lessons Learned Changes and Other ERS Items*, recently filed by ERCOT. Additionally, some stakeholders have raised concerns that ERS suppliers reduced load prior to being called for ERS. This issue should be investigated and explored more fully to determine whether design changes are called for. OCSC and TCAP support a holistic review of all of the potential load response services, not restricted to the current ERS framework and compensation.

Lastly, the Commission asked how the current market design can be altered (e.g., by implementing new products) to provide tools to improve the ability to manage inertia, voltage support, or frequency. OCSC and TCAP note the forthcoming implementation by ERCOT of its FFR service will provide greater opportunity for Battery Energy Storage Resources to participate in providing reliability services. OCSC and TCAP anticipate significant expansion of storage

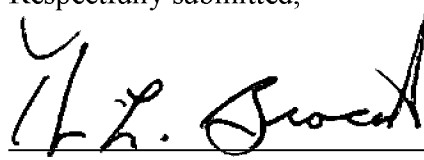


resources and recommend that the Commission should prioritize eliminating barriers to the adoption of Energy Storage Resources.

OCSC and TCAP look forward to future work sessions, discussions, and opportunities for stakeholder engagement regarding the review of the wholesale electric market design, and appreciate the opportunity to submit these Comments to the Commission.

Dated: August 16, 2021

Respectfully submitted,



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**LLOYD GOSSELINK**  
**ROCHELLE & TOWNSEND, P.C.**  
816 Congress Avenue, Suite 1900  
Austin, Texas 78701  
(512) 322-5800

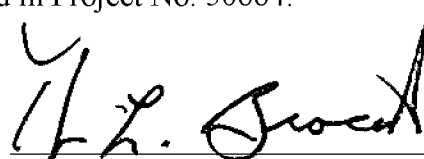
THOMAS L. BROCATO  
[tbrocato@lglawfirm.com](mailto:tbrocato@lglawfirm.com)  
State Bar No. 03039030

TAYLOR P. DENISON  
[tdenison@lglawfirm.com](mailto:tdenison@lglawfirm.com)  
State Bar No. 24116344

**ATTORNEYS FOR STEERING COMMITTEE  
OF CITIES SERVED BY ONCOR**

#### **CERTIFICATE OF SERVICE**

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on August 16, 2021, in accordance with the Order Suspending Rules, issued in Project No. 50664.



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THOMAS L. BROCATO