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PUC DOCKET NO. 52373

**REVIEW OF WHOLESALE ELECTRIC
MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

TEXAS OIL & GAS ASSOCIATION’S COMMENTS ON COMMISSION QUESTIONS

I. INTRODUCTION

TXOGA appreciates the ability to provide comments in Docket No. 52373 regarding Market Design. We appreciate any consideration of the following comments.

The Texas Oil & Gas Association (TXOGA) is a statewide trade association representing every facet of the Texas oil and gas industry including small independents and major producers. Collectively, the membership of TXOGA produces in excess of 80 percent of Texas’ crude oil and natural gas, operates over 80 percent of the state’s refining capacity, and is responsible for the vast majority of the state’s pipelines. In fiscal year 2020, the oil and natural gas industry supported more than 400,000 direct jobs and paid \$13.9 billion in state and local taxes and state royalties, funding our state’s schools, roads and first responders.

EXECUTIVE SUMMARY

TXOGA wants the market to continue to incentivize investment in our energy only market and encourages the PUC to take thoughtful study of any changes to the market. Our comments below discuss changes to the ORDC which include reviewing the following ideas: only paying the ORDC to dispatchable generation, reviewing a seasonal ORDC, and reviewing the price cap of the ORDC. In the following comments, TXOGA discusses encouraging intermittent generation resources to increase reliability and if fails to meet its commitment to pay for replacement power. TXOGA believes that ancillary services should be procured to meet the reliability needs of the system, but not indirectly implement other market structures. Services should be defined by quantity of megawatts needed in conjunction with power quality needs and not by technology type so that the market can innovate and compete to provide these services in the most efficient and cost-effective way. Costs should be shared by load and the causative agent that led to the requirements for any such services under cost-causation principles. We appreciate the

Commission's thoughtful study of any changes to the market and appreciate the participation of all market participants in the process.

II. COMMENTS ON COMMISSION 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?

TXOGA believes that there are several changes to the ORDC that the PUC should consider that would help enhance the market. First, paying the ORDC to only dispatchable generation will make a difference and will increase supply when generation reserves are tight. It should also incentivize gas-powered generators to buy firm natural gas supplies and to consider investing in natural gas storage. TXOGA believes that natural gas storage and secure firm pipeline transportation presents a significant opportunity to improve the reliability and availability of fuel-ready natural gas for power generation.

Due to a combination of forces, including many outside of the current market design such as federal tax credits and environmental, social, and corporate governance (ESG) goals, ERCOT has seen a dramatic increase in intermittent generation, with the attendant issues that arise with non-dispatchable, intermittent, and inverter-based power. As TIEC stated in their comments in this docket, the ORDC is a pricing mechanism that is designed with an intent to incentivize additional generation resources to come online in times when the reserve margin is thin. Although, intermittent generation resources currently receive the benefits of the ORDC pricing adder, they are not reliably able to assist in increasing the reserve margin because their output cannot be adjusted based on price incentives.

Because of this fact, intermittent resources should not be the beneficiary of the ORDC pricing adders because they cannot change their behavior in a reliable, predictable, and repeatable fashion in response to higher prices. If ERCOT was able to somehow modify the ORDC adder to include only resources that can provide reliability and can have a positive effect on the overall system reserve margin, it would likely better incentivize the right type of dispatchable generation and would possibly reduce overall costs for load. As noted by TIEC's comments, a bifurcated

pricing model would however be complicated and difficult to implement and might have unintended consequences.

Another thought is that seasonal ORDC curves may also work best as they may better align the gas and power markets. Each season has different load and generation characteristics and the ORDC curve should reflect that to better incentivize generation as the weather changes.

Additionally, the PUC would likely benefit by studying the effects of adjusting the current \$9,000 cap. While the ORDC has increased from a nominal cap of \$3,000 to the current Value of Lost Load (VOLL) of \$9,000 there is no evidence that the change in the VOLL has brought additional reliability to the market. This was demonstrated most dramatically during Winter Storm Uri where generation shortages persisted even when the PUC unilaterally, and outside the ERCOT Protocols, effectively pegged the ORDC at the cap by maintaining pricing at the \$9,000/MWh VOLL level after firm load shed had ceased. The \$9,000 cap is designed to incentivize additional supply to come online however as Winter Storm Uri demonstrated, there was no available supply which rendered the forced price cap unnecessary and ineffective. At the root of its design, the ORDC should incentivize energy production that is dispatchable to the market when it's needed most and should reward those that can provide proportionally.

TXOGA understand that any changes to the ORDC are complex and need careful study before a decision is made.

2. Should ERCOT require all generation resources to offer a minimum commitment in the day-ahead market as a precondition for participating in the energy market?

The greatest cause of price fluctuations on a daily basis is the variability of intermittent resource actual output versus the day ahead market forecast. While TXOGA understands and agrees with TIEC that requiring intermittent resources to bid into the day ahead market might not change intermittent generation performance, TXOGA does encourage the PUC to explore ways that intermittent resources could improve their reliability to the grid.

Before intermittent resources were so prevalent, high load days typically meant higher prices. Today, with such a great number of intermittent resources on the grid, a high load day does not necessarily correlate with high prices. We've seen many days where load was extremely high,

but wind generation was also very high and prices were kept in check as the resultant “net load” was not extremely high.

On the other hand, we’ve seen days where load was moderate but actual wind generation was quite a bit less than anticipated in the day ahead forecast causing a lot of volatility in prices due to a high “net load.” Requiring intermittent resources to provide a minimum commitment (“firming up”) could be very difficult and we fear many intermittent resources would therefore offer volumes that are very conservative to avoid penalties. This could in turn cause an overabundance of supply which would suppress prices and could have the unintended consequence of reducing the amount of dispatchable generation over time.

If the change is made to have resources bid into the day-ahead market, any intermittent generator which fails to deliver the promised energy in the day-ahead market should be responsible for paying ERCOT the actual cost of power paid during each 15-minute increment they were short (buying replacement power). Exclusions should be limited to electrical transmission disruptions, electrical distribution disruptions, or direct actions by ERCOT or the PUC taken to keep the generation from occurring.

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?

Ancillary Services should be procured to meet the reliability needs of the system and should not end up as a way to indirectly implement other market structures. Services should be defined by quantity of megawatts needed taking power quality needs into consideration and not by technology type so that the market can innovate and compete to provide these services in the most efficient and cost-effective way.

Ancillary services provide generators more revenue certainty which, if fruitful enough, could give them more confidence to acquire firm gas supplies and invest in gas storage.

Inertia, voltage and additional frequency support could be designed and introduced to the market as new procured ancillary service products. The further study of ERCOT’s operational

performance during Winter Storm Uri should help ERCOT understand the loss of certain dispatchable rotating generation due to excessive load shed, and assess any operational procedures tweaks that may be needed.

Costs should be shared by load and the causative agent that led to the requirements for any such services under cost-causation principles. ERCOT should re-evaluate the load resource program more thoroughly to account for more seasonal, regional, and real-time options to better identify and target those resources most needed pre, during, and post event. Load Resource tools are an important element to adding power onto the grid in critical times and a one size fits all approach will ultimately leave valuable energy on the table.

4. Is available residential demand response adequately captured by existing retail electric provider (REP) programs? Do opportunities exist for enhanced residential load response?

TXOGA does not have comments regarding this question.

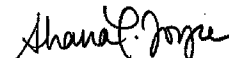
5. How can ERCOT's emergency response service program be modified to provide additional reliability benefits? What changes would need to be made to Commission rules and ERCOT market rules and systems to implement these program changes?

TXOGA does not have comments regarding this question.

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?

TXOGA does not have comments regarding this question.

Respectfully submitted,
Texas Oil & Gas Association



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