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Received - 2022-03-18 02:09:29 PM
Control Number - 53191
ItemNumber - 10

PROJECT NO. 53191

REORGANIZATION OF 25.505

**§ PUBLIC UTILITY COMMISSION
§ OF TEXAS**

**SOUTH TEXAS ELECTRIC COOPERATIVE, INC.'S COMMENTS ON THE
PROPOSAL FOR PUBLICATION TO REPEAL 16 TAC §25.505 AND REPLACE IT
WITH NEW 16 TAC §25.505, NEW 16 TAC §25.506, AND NEW 16 TAC §25.509**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

COMES NOW, South Texas Electric Cooperative, Inc. ("STEC") and submits its Comments to the Public Utility Commission of Texas ("PUCT" or "Commission") on the Commission's Proposal for Publication seeking to repeal 16 Texas Administrative Code ("TAC") §25.505, split Section 25.505 into three separate rules, and to decouple the System-Wide Offer Cap ("SWOC") and the Value of Lost Load ("VOLL"). The deadline for filing Comments to be considered in the above-styled proceeding is March 18, 2022, therefore these Comments are timely filed. A bulleted, executive summary of STEC's recommendations is included as Attachment A.

I. STEC'S COMMENTS

STEC urges the Commission to refrain from decoupling the SWOC and the VOLL until a comprehensive study on the SWOC, VOLL, and the Operating Reserve Demand Curve ("ORDC"), with the reduced System-Wide Offer Caps ("SWOC"), is conducted. STEC recommends that the Commission request that a consultant evaluate the consequences of decoupling the SWOC from the VOLL as part of a larger holistic study of the Electric Reliability Council of Texas, Inc. ("ERCOT") energy-only market and scarcity pricing, as well as the impacts on dispatchable generation resources. Changes to the ORDC, including a proposal to decouple the SWOC and VOLL, and a determination of the appropriate value for VOLL, should be made through a comprehensive, study-based approach and with meaningful opportunity for stakeholder input. Upon the completion of a study and an opportunity for robust stakeholder input, the

Commission can then choose whether to proceed with decoupling the SWOC from the VOLL and/or set the ORDC High System-Wide Offer Cap (“HCAP”) and VOLL at values that will result in improved reliability through increased dispatchable generation in the ERCOT market. The inputs to the ORDC must be set at values that establish the price for energy necessary to support existing generation and incentivize new generation to site. To better inform this analysis, STEC also recommends that the Commission establish a reliability benchmark, in the form of a reserve standard, to assist the Commission and stakeholders in determining the values for these inputs necessary to produce the desired outcome.

The VOLL has always been a fictional construct and has never been a realistic estimate of the true value of lost load in the ERCOT market. The Commission’s decision to administratively set the VOLL at \$9,000/MWh was a compromise—\$9,000/MWh was the highest value that the Commission, stakeholders, and the Brattle Group determined was acceptable to the market as an offer cap. It was not supported by any studies or analysis. The actual studies performed at the time demonstrated that the true overall value of lost load was significantly higher. Data available today continues to indicate that the true value of lost load is much greater than \$9,000/MWh. As noted in previously filed comments, the Federal Reserve Bank of Dallas calculated a value of lost load of approximately \$31,747/MWh to \$51,588/MWh during Winter Storm Uri.¹ This value is necessarily low since it cannot take into account the human toll in lost lives. For these reasons it is imperative that the Commission first study the VOLL to establish an accurate VOLL based on objective, verifiable data.

STEC appreciates the Commission’s focus on adopting market mechanisms that support

¹ Review of 25.505, Project No. 52631, South Texas Electric Cooperative, Inc.’s Comments on the High System-Wide Offer Cap at 2 (Sept. 30, 2021) (citing Garrett Golding, Anil Kumar, and Karel Mertens, *Cost of Texas’ 2021 Deep Freeze Justifies Weatherization*, Dallas Fed Economics (Apr. 15, 2021), <https://www.dallasfed.org/research/economics/2021/0415.aspx> (last visited March 14, 2022)).

system reliability so that the market can avoid catastrophic load shed events like the ones experienced during Winter Storm Uri. Establishing an accurate VOLL will assist the Commission in holistically evaluating the market to ensure consistent and meaningful revenue streams to support continued operation of existing dispatchable generation and development of new dispatchable generation.

For these reasons, STEC urges the Commission to refrain from acting on the SWOC, VOLL, and ORDC until a comprehensive study is conducted and stakeholders are provided with opportunities for meaningful input.

II. CONCLUSION

STEC appreciates the opportunity to provide comments herein and encourages the Commission to study VOLL, and the impact of decoupling VOLL and the SWOC with the new, lower SWOCs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Diana Liebmann", written in a cursive style.

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SOUTH TEXAS ELECTRIC COOPERATIVE, INC.'S EXECUTIVE SUMMARY

- STEC urges the Commission to refrain from decoupling from the SWOC and the Value of Lost Load ("VOLL") until a comprehensive study on the SWOC, VOLL, and the Operating Reserve Demand Curve ("ORDC") is conducted.
- The Commission should ask a consultant to evaluate the consequences of decoupling the SWOC from the VOLL as part of a larger holistic study of the Electric Reliability Council of Texas, Inc. ("ERCOT") energy-only market, scarcity pricing, and the impact on dispatchable generation.
- Wholesale changes to the market are best made with a comprehensive, study-based approach with opportunity for meaningful stakeholder input.
- Upon the completion of a study and an opportunity for robust stakeholder input, the Commission will be armed with the information to decide whether to proceed with decoupling the SWOC from the VOLL and/or setting the ORDC, High System-Wide Offer Cap ("HCAP"), and VOLL at values that will result in improved reliability through increasing dispatchable generation in the ERCOT market.
- The \$9,000/MWh value was never a reasonable estimation of VOLL in the ERCOT market.
- Studies from the time VOLL was set, and information available today continue to demonstrate that the true value of lost load is significantly greater than \$9,000/MWh.
- The Commission should first conduct studies to determine VOLL based on objective, verifiable data.
- The Commission should holistically evaluate VOLL and the System-Wide Offer Cap ("SWOC") to promote consistent and meaningful revenue streams to existing and new dispatchable generation,