



Control Number: 53298



Item Number: 22

Public Utility Commission of Texas

Commissioner Memorandum

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PUBLIC UTILITY COMMISSION
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TO: Commissioner Will McAdams
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Kathleen Jackson

FROM: Chairman Peter M. Lake

DATE: January 19, 2023

RE: January 19, 2023 Open Meeting, Item No. 6
Project No. 53298, *Wholesale Electric Market Design Implementation*

Having incorporated your edits and recommendations, the concepts and principles below describe the form of reliability mechanism to meet the requirements of Senate Bill 3:

- The Commission eliminates the DEC, FRM and LSERO proposals from any further consideration.
- The Commission agrees to open a project to evaluate and establish an appropriate reliability standard.
- The Commission will recommend the creation of a new reliability service to ensure enough dispatchable generation is available during periods of low renewable output. This new service should be based on the Performance Credit Mechanism (PCM) concept as articulated in the E3 Report that includes the following principles:
 - Defined reliability standard
 - Must consider both infrastructure adequacy for the deliverability and resource adequacy within the system
 - Clear performance standards
 - Reward eligible resources for actual performance during the hours of highest reliability risk
 - Dynamic sizing

- Be proportional to the system need, with dynamic pricing and sizing to ensure reliability needs are met without over-procuring services
 - The reliability service shall not be based on forward looking forecasts made by the ISO
- Forward price signal
 - Encourage investment in retention of existing eligible resources and development of new eligible resources by guaranteeing the opportunity to compete for a pool of revenue based on performance
- Self-accreditation
 - Require eligible resources to self-commit instead of using an administratively assigned accreditation
- Centrally cleared
 - Ensure entities with affiliated eligible resources and retail entities do not self-arrange commitments by requiring all transactions to be cleared through a centralized, transparent ERCOT administered market
- Residual market
 - Provide flexibility to market participants to fulfill their obligations and facilitate retroactive true up of actual performance
- Demand curve
 - Achieve the specified reliability standard in a cost-effective manner as part of the residual market
- Maintain the current ERCOT market
 - Protect ERCOT's robust competitive wholesale market and retail electricity market that provides choice for consumers
 - Include strong mitigation measures to prevent market power abuse in the wholesale market
- Self-correcting
 - Establish a demand curve that results in the value of credits decreasing when the market has excess generation, lowering costs to consumers
 - Demand curve cannot include minimum price
- Market power mitigation
 - Ensure competition and innovation will continue to thrive in the ERCOT market by mitigating market power concerns, especially regarding affiliated generation and retail entities
 - Ensure against bidding and offering strategies to mitigate against potential abuse
 - Ensure PC awards must be proportionally assigned based on a forward offer requirement
- Technology Neutral

- Eligibility for Performance Credits should be technology neutral subject to performance requirements as outlined in this document and codified in implementation
- Eligibility for Performance Credits should be technology neutral subject to requirements of SB 3

Once implementation is launched at some point in the future subject to consideration and direction of the 88th Legislature, the Commission will develop an implementation plan with categories to determine which entity—whether the Commission, ERCOT, the IMM or some combination thereof—is responsible for the analysis related to each of the decision points below. For decision point items relegated to ERCOT analysis, the Commission will direct ERCOT to undertake stakeholder evaluation subject to ERCOT Board vote for ultimate recommendation for Commission approval. The ultimate authority for all of these and any additional decision points lies with the Commission. The following decision points will be incorporated into the Commission’s implementation plan:

- Define eligible resources on both generation and load side, including evaluation of possibilities to incorporate energy efficiency, demand response, and DERs subject to SB 3 requirements
- Determine PCM compliance period
- Determine number of PCM hours per compliance period
- Determine how PCM hours are calculated
- Determine methodology for identifying hours of highest risk
- Determine reliability standard associated with each PCM compliance period
- Determine demand curve parameters for each PCM compliance period
- Determine requirements for producing a performance credit, including forward offer requirements
- Determine forward market timing
- Determine if there should be geographic requirements for earning PCs
- Identify the appropriate combination of penalties, claw backs, and other financial consequences in cases of non-performance by performance credit recipients
- Evaluate and identify best practices to mitigate market manipulation through bidding behavior and evaluate ways to mitigate against self-dealing/market power abuse in the centrally cleared market using code of conduct, bidding behavior, and other appropriate limitations/standards
- Determine if modifications should be made to the ORDC based on implementation of PCM, if so, what?
- Determine if changes should be made to VOLL or SWOC based on implementation of PCM, if so, what?
- Determine ability of virtual parties to participate in the PCM market

- Determine the best mechanism to track and annually report percentage of performance credits for new builds versus existing generation facilities and new market entrants versus incumbent generators
- Determine the best type of KPI or success metric to measure the ultimate performance of the PCM

- In addition, the Commission directs ERCOT to evaluate bridging options to retain existing assets and build new generation until the PCM can be fully implemented. ERCOT should return to the Commission's January 26 open meeting with a proposed date to deliver a report with the following information on the contemplated bridge mechanism:
 - Options evaluated by ERCOT as a bridging solution, with pros and cons of each
 - The preferred solution as voted on by the ERCOT Board
 - Timeline and next steps for implementing the preferred bridging solution

- The Commission directs PUCT staff and ERCOT to delay implementation of the PCM until such time as the 88th Legislature has had an opportunity to render judgment on the merits of the PCM and/or establish an alternate solution.

So long as the principles above align with your understanding of our discussion at today's meeting, I propose we vote to approve the form of reliability service described in this memo.