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PROJECT NO. 53493

ELECTRIC RELIABILITY COUNCIL OF § PUBLIC UTILITY COMMISSION
TEXAS (ERCOT) EMERGENCY RESPONSE §
SERVICE § OF TEXAS

**COMMENTS OF
ADVANCED ENERGY MANAGEMENT ALLIANCE**

The Advanced Energy Management Alliance (AEMA) and files these Comments in response to the Commission Order proposing amendments to the rule relating to Emergency Response Service (ERS)¹ adopted by the Commission at its Open Meeting on June 16, 2022.² AEMA is a trade association under Section 501(C)(6) of the Federal tax code whose members include national distributed energy resource companies and advanced energy management service and technology providers, including demand response (DR) providers, as well as some of the nation's largest demand response and distributed energy resources (DERs) and consumers. The comments herein represent the views of the organization as a whole rather than those of any individual member. AEMA appreciates the Commission's issuance of the proposed amendments to the ERS rule and offers these comments.

Introduction

In general, demand response falls into two broad categories: (1) programs created by grid operators, load serving entities (LSEs), or distribution grid operators which pay customers to be available to reduce demand when an emergency arises on the electric grid or to meet ISO commitments when required to do so under a capacity market program (reliability-based demand response); or (2) instances where customers act voluntarily to reduce demand as an economic response to avoid or reduce exposure to high electricity prices or to engage in other economically

¹ 16 Tex. Admin Code § 25.507.

² 47 Tex. Reg. 3774 (July 1, 2022)

beneficial activities (economic demand response).³ Loads or aggregation of Loads, and certain types of generators, can provide ERS, which is an important ERCOT reliability demand response tool – a defense against involuntary rolling outages.

ERCOT deployed ERS during Winter Storm Uri in February 2021, and, for the first time in the history of ERS, exhausted the contractual resource limits. ERCOT then offered to renew available ERS Resources for an additional contract period in the Standard Contract Term. The bulk of the resources that had contracted to provide ERS in the Standard Contract Term agreed to the additional Contract Period.⁴ Previously in 2019, an ERS deployment enabled ERCOT to avoid going beyond Energy Emergency Alert Level 1 (EEA1).⁵ ERS also enabled ERCOT to avoid the need for involuntary forced outages during the Polar Vortex event in 2014.⁶ It is far superior for ERCOT to curtail customers who have volunteered to have their consumption curtailed and who have prepared accordingly than to cut load to residential and small commercial customers who are not prepared and may have little or no warning that their service will be interrupted.

In late 2021, the Commission took action to modify the existing ERS program on an interim basis, authorizing ERCOT to move budget dollars to the Standard Contract Period covering the 2021-2022 winter. The Commission also changed the nature of the ERS program to allow ERCOT to deploy ERS resources prior to an Energy Emergency Alert (EEA) condition, thus increasing the risk profile and costs to provide the service.

³ The Demand Response Coalition discussed the distinctions between reliability-based and price-based demand response in their comments filed in Project No. 41061 on February 15, 2013.

⁴ ERCOT 2021 Annual Report of Demand Response In the ERCOT Region, at 9, available at <https://www.ercot.com/misapp/GetReports.do?reportTypeId=13244&reportTitle=Annual%20Report%20on%20ERCOT%20Demand%20Response&showHTMLView=&mimicKey>.

⁵ ERCOT 2019 Annual Report on Emergency Response Service, Project No 27706 (Apr. 15, 2020); *see also* ERCOT's Report of Emergency Event for Operating Day August 15, 2019, Project 27706 (Aug. 21, 2019); and ERCOT's Report of Emergency Event for Operating Day August 19, 2019, Project 27706 (Aug. 19, 2019).

⁶ *See* ERCOT's 2013 Annual Report on Emergency Response Service, filed in Project No. 27706 on April 15, 2014 (available at http://interchange.puc.texas.gov/Documents/27706_287_785847.PDF).

COMMENTS

1. Increasing the Budget Cap

One of the major changes in the proposed rule is to increase the annual ERS budget cap from \$50 million to \$75 million. AEMA supports an increase in the cap, but believes that the Commission should adopt a higher cap. In our comments in response to the Staff's Discussion Draft, we recommended that the cap be increased to \$200 million. As the aftermath of Winter Storm Uri has demonstrated, the economic impact of grid outages is enormous, and the cost of additional insurance to help avoid the need for involuntary forced outages pales in comparison. ERCOT should be given the financial flexibility to increase the magnitude of this critical line of defense. AEMA members know from recent experience selling demand response products to customers for Winter 2021-2022 that there are significant available resources ready to sign up for demand response if the market opportunity and time to recruit ERS resources is available.

The \$50 million budget cap was established in 2007, and it has served as a *de facto* cap on the ability of demand response to grow beyond approximately 1000 MW, a small fraction of ERCOT demand. When the ERS budget cap was established in 2007, ERCOT peak loads were about 62 gigawatts.⁷ The proposed \$75 million budget cap in the proposed amendment just covers the cost of inflation since the budget cap was put in place,⁸ but does not cover the growth in the megawatts delivered or the higher peak demands in ERCOT, nor does it provide compensation for the increased costs related to deploying prior to an EEA, the significantly increased performance obligations the proposed amendments ERCOT may require of ERS resources, or other proposed program changes, such as creating new more expensive ERS categories (discussed below).

⁷ Potomac Economics, ERCOT 2007 State of the Market Report, at 71, available at https://www.potomaceconomics.com/wp-content/uploads/2020/07/2007-ERCOT-SOM-REPORT_Final.pdf.

⁸ https://www.bls.gov/data/inflation_calculator.htm.

Adopting a meaningful increase to ERCOT's ERS budget will not necessarily lead to the result that ERCOT would immediately spend the additional funds, however the increase would provide a signal to potential ERS participants that there is more opportunity to provide ERS service than exists today. This would increase the capacity of ERS service ERCOT could procure at competitive prices.

The \$25 million increase in the base budget for ERS pales in comparison to the additional cost of other measures that the Commission and ERCOT have taken to increase the reliability of the system. The Independent Market Monitor for ERCOT has recently estimated that recent operational changes adopted to enhance reliability resulted in additional costs to ERCOT in the first five months of 2022 alone of between \$210 to \$385 million.⁹ AEMA recommends that the budget cap for ERS be increased from \$50 million to at least \$200 million, with an annual escalation factor to cover the cost of inflation.

2. New ERS Products

The proposed rule would allow ERCOT to modify the ERS program in ways that would increase by three times the hours that a resource could be obligated to provide load response (or generation) compared to the current program. Currently, ERS resources are selected to serve portions of the day, referred to by ERCOT as ERS Time Periods, with a maximum curtailment obligation during a contract period of 8 hours.¹⁰ This approach allows ERS resources, especially those with variable demand, to offer the amount of demand response during each Time Period that reflects the resource's ability to meet its performance obligation. In addition, ERS resources

⁹ Slide deck presented by Carrie Bivens, at the June 21, 2022 ERCOT Board Meeting, at 6, available at https://www.ercot.com/files/docs/2022/06/13/8%20Independent%20Market%20Monitor_IMM_2021%20State%20of%20the%20Market%20Report%20for%20the%20ERCOT%20Electricity%20Markets.pdf.

¹⁰ ERCOT refers to the time periods during the day for offering ERS as ERS Time Periods, while the rule refers to them as ERS contract periods. Both refer to the time periods in the year, during which a resource contracts for the service as standard contract terms.

contract to provide load reduction up to eight hours in the Standard Contract Term, although they can be required to remain curtailed longer than eight hours if an emergency extends beyond that time period.

The proposed amendment in subsection (d)(8) would allow ERCOT to increase the limit on deployments in a Standard Contract Term to 24 hours from the current limit of eight cumulative hours: “Deployment of an ERS resource must be limited to the number of hours for which the service was contracted, up to a maximum of 24 cumulative hours in an ERS contract period.”¹¹

Thus, if an ERS resource contracts to provide service in three contract periods, that resource could be required to provide up to 24 hours of demand response for one time period rather than the current limit of 8 hours for that period. In addition, this proposed amendment also would allow ERCOT to create a new ERS procurement term of 24 hours per day seven days per week in addition to (or in lieu of) the current 8-hour time periods. Such a product would eliminate many ERS resources from being able to participate as they do today due to normal demand variation at the location, such as due to operating primarily during daytime hours with much less demand overnight. The result would be to reduce competitive options to provide this service as well as increase the cost to provide the service. Both of these changes are likely to increase the cost of ERS resources relative to current ERS costs. AEMA believes that an all-day product would not provide significant additional benefits, and funds would be better spent securing additional resources under the existing ERS Time Periods. A longer potential deployment obligation also would increase costs. If the Commission adopts this proposed change, it will increase the cost of some (or all) resources, providing additional reason to increase the budget cap.

¹¹ 47 Tex. Reg. at 3776.

AEMA believes that there are ways to expand the ERS program at a lower cost. The Commission could achieve greater value by expanding the pool of demand response resources that can participate in ERS by recognizing that customer loads vary in their response capabilities. Response of an industrial process will necessarily be different from response by a residential pool pump, for example. The existing ERS rules include requirement for a resource to dispatch within either 10 minutes or 30 minutes after a deployment notice is issued. Providing for longer lead times would encourage a wider diversity of load participation across all customer classes. AEMA recommends that the rule be modified to accommodate one-hour, two-hour or longer products as part of the ERS market.

3. Increase in Budget Cap for Contract Extensions

Another major change in the rule is to allow ERCOT to increase the budget cap when ERCOT has renewed ERS contracts because the resource time limits have been exhausted. As proposed in the rule, ERCOT could increase the cap by up to \$25 million in these circumstances. AEMA believes that the circumstances of Winter Storm Uri show the need for such authority. In the absence of the ability to raise the cap, a long dispatch of ERS resources early in the year and a renewal of resources to continue to provide service in that contract period could (and did) result in under-funding ERS later in the year. In addition, a long dispatch in the last standard contract term could leave ERCOT without funds to renew ERS contracts for the balance of that standard contract term. AEMA supports this proposed change.

CONCLUSION

AEMA appreciates the opportunity to provide these Comments and looks forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Katherine Hamilton". The signature is fluid and cursive, with a long horizontal stroke at the end.

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**ELECTRIC RELIABILITY COUNCIL OF
TEXAS (ERCOT) EMERGENCY
RESPONSE SERVICE**

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EXECUTIVE SUMMARY

- AEMA recommends that ERCOT’s budget to procure ERS be expanded to at least \$200 million, with an annual escalation factor to cover the cost of inflation.
- The proposed rule would permit ERCOT to increase the current eight-hour deployment limit to 24 hours and also to procure an All-day ERS product. Both of these changes are likely to increase current ERS costs.
- The existing ERS rules require a resource to dispatch within either 10 minutes or 30 minutes after the deployment notice. Providing for longer lead times would encourage a wider diversity of load participation across all customer classes. AEMA recommends that the rule be modified to accommodate one-hour, two-hour or longer products as part of the ERS market.
- AEMA supports the proposed change to allow ERCOT to increase the ERS budget cap by up to \$25 million when ERCOT has renewed ERS contracts because the resource time limits have been met. If ERCOT increases the base budget cap to \$200 million, AEMA recommends the Commission increase this potential buffer proportionally to \$67 million.