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AGGREGATE DISTRIBUTED ENERGY RESOURCE (ADER) ERCOT PILOT PROJECT §
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 § **PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF ADER REPs REGARDING THIRD PARTY AGGREGATION

These Comments are offered by retail electric providers (REPs) Octopus Energy, NRG Energy, Vistra Corp., Shell Energy North America, and Base Power Company participating as members of the Aggregate Distributed Energy Resources Task Force (ADER TF), collectively “ADER REPs,” as well as REPs that are members of the Texas Energy Association of Marketers (TEAM) (collectively “REP Group”). Commissioner Gloffelty filed a memo in this Project on August 14, 2024, asking the ADER TF to consider certain issues to move the pilot project forward. In these comments, the REP Group focuses on Issue #2 in the memo, specifically: *“The Task force should look at if it is possible for a consumer to select a VPP provider that is not their Retail Electric Provider.”*

Past efforts by ERCOT’s DREAM Task Force¹ and Loads in SCED v2 Subgroup of DSWG² demonstrated the possibility, but extreme complexity, of allowing multiple players using devices at the same premise to simultaneously participate in markets. Therefore, the REP Group avers that although it may be *possible* to have customers selecting VPP providers that are not their REP, such business models are not optimal from a customer or market efficiency perspective or from a reliability perspective under the ERCOT market construct. Furthermore, such arrangements are not a panacea for increasing ADER participation (and could even slow market development); therefore, the complexity that such arrangements entail make them impractical for the ADER pilot

¹ <https://www.ercot.com/committees/inactive/dreamtf>.
² The Loads in SCED v2 Subgroup of DSWG met from 2014 through 2016.

project. Accordingly, these comments discuss the need to avoid conflicts regarding controllable customer devices and offer potential solutions for consideration by the ADER TF and the Commission.

I. REPs Are Appropriately the Primary Point of Contact for Customers

Participating in Dispatchable Aggregations of Distributed Energy Resources

The REP Group maintains that Load Serving Entities (LSEs) including Retail Electric Providers (REPs), are best suited and situated to facilitate load resource participation within the framework of ERCOT's competitive wholesale and retail markets.³ In competitive portions of ERCOT, REPs are the primary customer-facing entity for electric service and bear the financial responsibility for customer usage in wholesale settlement. Consequently, the competitive ERCOT market structure naturally results in LSEs (such as REPs) having the primary VPP customer relationship for economic efficiency, reliability, and a better customer experience.

VPPs can impact customer consumption patterns, which can negatively impact REPs if they are not involved in their customer's VPP participation and/or adversely impact customers when controllable devices are deployed in a manner contrary to cost-savings strategies planned by their REP. Customers who enroll with REPs enter a compact whereby the REP assumes responsibilities for the customer's wholesale market risk management, customer service, and retail billing. Retail electricity service that includes demand response and/or wholesale market participation via an ADER also typically include a discounted price, bill credits, or other customer benefits in exchange for allowing the REP to control one or more customer devices in response to market signals. However, if another controllable device (e.g., a battery or smart thermostat) is

³ See Joint Comments of the Retail Electric Provider Group and the Texas Competitive Power Advocates, Project No. 41061, *Rulemaking Regarding Demand Response in the Electric Reliability Council of Texas (ERCOT) Market* (Jan. 19, 2018).

under control by a third-party aggregator and the REP does not have insight to or control of the device's activities, the actions undertaken by the aggregator may interfere with the REP's ability to optimize value to the customer. Also, if there are unanticipated swings in a customer's consumption due to third party aggregator's involvement, the REP's ability to forecast and manage their customer load would be compromised, which would have significant negative financial impacts on customers' and/or their REPs' ability to cost-effectively manage customer load – a risk premium that would inevitably accrue to retail service offers.

Additionally, conflicting actions undertaken by a REP and a third-party aggregator at the same customer premises are likely to result in customer confusion, and, at worst, can undermine the ability of the REP to manage wholesale risk on behalf of the customer. These conflicts have negative implications for REPs' ability to create and share VPP value with customers, and potentially system reliability as well. For example, if a REP plans to use a customer's battery to address future needs on the grid later in the day, but a third party were to dispatch that battery in response to high prices earlier in the day, then the REP will no longer have that battery's capacity available later in the day to address anticipated reliability needs. Such conflicts are not just theoretical; members of the REP Group have encountered conflicts in which non-affiliated third-party aggregators have enrolled devices in transmission and distribution utility (TDU) energy efficiency programs or ERCOT Emergency Response Service (ERS) at the same premise where the REP is serving its retail customer.⁴

A REP enrolling a new customer has no way to know whether a customer device at a premise has already been enrolled in a TDU energy efficiency program or ERS, and if it is discovered after the fact, it can be a lengthy and negative customer experience to reverse the

⁴ For example, *see* <https://www.theverge.com/2021/6/18/22540015/psa-energy-saver-program-smart-thermostat-adjust-temperature-heat>.

customer enrollment with the third party. More importantly, as noted previously, the actions taken by a third party in pursuit of their own market objectives will likely conflict with REP actions trying to optimize value for the customer and will almost certainly result in a negative customer experience.

Finally, another reason REPs are the natural primary point of contact for customers participating in VPPs is that that ensures adequate customer protections. REPs are certificated and regulated by the Commission; non-REP VPP providers are not. Creating an uneven regulatory playing field for VPPs would be detrimental to protecting the interest of customers.

II. REP-Driven VPP Solutions Pave the Way for Increasing Participation in the ADER Pilot

If the question posed by Commissioner Glotfelty's August 14, 2024 about expanding business models in the ADER pilot was posed due to concern about the pilot not yet being at capacity, then it would be advisable to focus on whether there are technical, operational, or ancillary service market design frictions to pilot participation that are inhibiting more robust participation. To that end, the REP Group offers that ADER participants must weigh the relative costs and benefits of participating in the ADER pilot versus other methods of financially benefiting from having dispatchable DERs. As benefits are added to ADER pilot (e.g., increased ease of participation, market signals that economically incentivize participation), the greater the odds participants will choose that path.

The ADER pilot is not the only program by which a participant can be compensated for an aggregation of DERs. The most notable example would be programs offered by REPs that provide offer financial incentives to customers to enable the REP's load to respond to prices in the ERCOT wholesale market. Such programs avoid any technical dispatch requirements or limitations

imposed by ERCOT. The reduced consumption avoids high energy costs and are settled through the customer's LSE or REP. This type of VPP is not part of an ERCOT-administered program, but rather is offered through the competitive retail market based on customer demands for these products and statutory constraints. By contrast, the ADER pilot is a type of VPP where loads and behind-the-meter DERs that can respond to dispatch instructions and meet certain performance criteria can qualify to submit bids via a Qualified Scheduling Entity (QSE) into and be dispatched by SCED and may also qualify to provide certain products in the ERCOT Ancillary Service market. However, if an ADER is bid into the ERCOT energy or ancillary service market and does not perform, it is subject to potential fine and penalty by the Commission. Thus, the relative benefits of each VPP type must be weighed by participants in determining the most economic path forward.

It is worth noting, however, that REPs are continuing to grow VPP programs outside the ADER pilot program.^{5,6,7} These may not currently participate in the ADER pilot, but they help to develop an engaged customer base that, over time and with adequate economic incentives, can translate into ADER pilot participation. Therefore, the Commission should continue the current policy that incentivizes aggregators to partner with Load Serving Entities (LSEs) for ADER market participation. The ADER Pilot Governing document currently requires participation of ADERs via an LSE, and continuing this policy as the pilot transitions to full market implementation makes

⁵ <https://octopusenergy.com/press-releases/octopus-energy-customers-in-texas-supercharge-savings-with-home-battery-program>

⁶ <https://www.txi.com/media-press-releases/2024/091124-vistra-partners-with-sunrun-on-residential-battery-aggregation-program>

⁷ <https://investors.nrg.com/node/43921>

sense as the simplest and best policy, consistent with the ERCOT market structure, in which REPs are responsible for risk management on behalf of their customers.

CONCLUSION

The REP Group appreciates the opportunity to provide these Comments and look forward to continued discussion with the ADER TF members on these and other issues.