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PUC PROJECT NO. 54224

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COST RECOVERY FOR SERVICE TO DISTRIBUTED ENERGY RESOURCES (DERs)

PUBLIC UTILITY COMMISSION OF TEXAS

<u>CALPINE CORPORATION'S COMMENTS</u> TO COMMISSION STAFF'S QUESTIONS FOR COMMENT

Calpine Corporation ("Calpine") submits its comments on Commission Staff's Questions for Comment. Calpine is headquartered in Houston and has a geographically diverse fleet across 22 states with significant scale in the ERCOT, CAISO, and PJM competitive wholesale markets. Our Texas fleet utilizes combined cycle and cogeneration technologies and supplies approximately 9,000 MW of generation to the ERCOT wholesale market. We take great pride in owning and operating a modern, clean, environmentally efficient, and reliable fleet and seek to be a positive contributor in the communities where our plants are located. Calpine also operates Calpine Energy Solutions and Champion Energy which are load serving entities (LSEs) in ERCOT. As LSEs, Calpine Energy Solutions and Champion Energy pay wholesale charges allocated to load through their Qualified Scheduling Entity (QSE) on behalf of our customers. We appreciate the opportunity to provide feedback regarding Commission Staff's Questions for Comment related to cost recovery for service to Distributed Energy Storage Resource ("DESR").

Response to Commission Staff's Questions:

Calpine does not have any comments with respect to Commission Staff's questions 1-3.

Question 4. 16 Texas Administrative Code § 25.501(m) provides, "Wholesale storage is not subject to retail tariffs, rates, and charges or fees assessed in conjunction with the retail purchase of electricity. Wholesale storage shall not be subject to ERCOT charges and credits associated with ancillary service obligations, or other load ratio share or per megawatt-hour based charges and allocations." Given changes in technology and the proliferation of Energy Storage Resources (ESRs) on the ERCOT grid, should the Commission revisit this policy on wholesale storage load applicability for ESRs interconnecting in the future? If so, how? Regarding Question 4, Calpine appreciates the question and supports a review of this policy through a rulemaking. When this existing policy was implemented in 2012, large scale deployment of storage was not economic and consisted mostly of compressed air energy storage. Since 2012, and especially with the passage of the Inflation Reduction Act, federal incentives have substantially changed the economics for storage. The current ERCOT Capacity Changes by Fuel Type Chart shown below reflects the precipitous proliferation of this resource. As a result, the ERCOT system may have several GW of storage in service by 2025, which will significantly increase the amount of wholesale storage load.



To calculate Ancillary Service ("AS") requirements, ERCOT's methodology utilizes ERCOT system load data, which includes load attributable to wholesale storage loads. To ensure reliable and economic performance on the grid, ERCOT is concerned with *overall load* including wholesale storage load and therefore designs its AS to support the needs of the system.

SB3 added subsection 35.004(h) to the Public Utility Regulatory Act ("PURA") which states, "The commission shall require the independent organization certified under Section 39.151 for the ERCOT power region to modify the design, procurement, and cost allocation of ancillary services for the region in a manner consistent with cost-causation principles and on a nondiscriminatory basis." Wholesale storage load, as a portion of ERCOT system load, contributes to the need for procurement of ancillary services. And based on the trends above, it appears that wholesale storage will *increase* the amount of total system load to support storage charging which in turn may increase Ancillary Service procurement paid for by load. However, 16 Texas Admin. Code ("TAC") § 25.01(m) prohibits the assignment of associated ancillary service cost to wholesale storage load.

This policy on its face is inconsistent with a plain reading of PURA § 35.004(h) which requires cost allocation of ancillary services in a manner consistent with cost-causation principles and on a nondiscriminatory basis. Similarly, situated Loads *are assigned* AS costs, and to the extent ERCOT procures AS to support wholesale charging activity, other loads are subsidizing storage. The Commission should consider eliminating this exemption because doing so will comply with PURA and allow market forces to better influence storage charging activity.

Conclusion

Calpine appreciates this opportunity to present our views on this very important matter and will remain engaged as this rule develops. We will make available representatives to discuss these positions if helpful to the Commission.

Respectfully submitted,

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EXECUTIVE SUMMARY OF CALPINE CORPORATION'S COMMENTS TO COMMISSION STAFF'S QUESTIONS FOR COMMENT

- When 16 Texas Administrative Code ("TAC") § 25.501(m) was enacted in 2012, large scale deployment of storage was not economic and consisted mostly of compressed air energy storage. Since 2012, and especially with the passage of the Inflation Reduction Act, federal incentives have substantially changed the economics for storage. Substantial proliferation of storage has occurred in ERCOT since that time, and current projections indicate that ERCOT may have several GWs of storage online by 2025.
- ERCOT's methodology for calculating its Ancillary Service ("AS") requirements utilizes ERCOT system load data, which includes load attributable to wholesale storage loads. To ensure reliable and economic performance on the grid, ERCOT is concerned with *overall load* and therefore designs its AS to support the needs of the system.
- PURA § 35.004(h), enacted by SB3, requires the Commission to require ERCOT to "modify the design, procurement, and cost allocation of ancillary services for the region in a manner consistent with cost-causation principles and on a nondiscriminatory basis." However, 16 TAC § 25.01(m) prohibits the assignment of associated ancillary service costs to wholesale storage load.
- PURA § 35.004(h) and 16 TAC § 25.01(m) conflict with respect to the treatment of wholesale storage load on allocation of ancillary service costs, particularly since wholesale storage load, as a portion of ERCOT system load, contributes to the need for procurement of ancillary services. Such wholesale storage load is only increasing to support storage charging.
- PURA § 35.004(h) requires cost allocation of ancillary services in a manner consistent with cost-causation principles and on a nondiscriminatory basis. Similarly situated loads *are assigned* AS costs, and to the extent ERCOT procures AS to support wholesale charging activity, other loads are subsidizing storage.
- The Commission should consider eliminating this exemption because doing so will comply with PURA and allow market forces to better influence storage charging activity.