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Received - 2022-12-15 12:04:01 PM

Control Number - 54335

ItemNumber - 108

PROJECT NO. 54335

**REVIEW OF MARKET REFORM
ASSESSMENT PRODUCED BY
ENERGY AND ENVIRONMENTAL
ECONOMICS, INC. (E3)**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

AARP'S COMMENTS ON E3 REPORT

AARP appreciates the opportunity to respond to E3's market design report, as filed in this project. AARP is a membership organization representing the interests of older people. We have 38 million members nationwide and 2.3 million here in Texas. AARP and its members care deeply about affordable and reliable electricity because the health, safety, and financial security of older people relies on it. 147 Texans who died in Winter Storm Uri were 60 or older.

Consumers are at the heart of ERCOT market reform. Consumers depend on and deserve reliable electricity. Consumers depend on and deserve affordable electricity. The goal of market reform should be to achieve appropriate reliability at the lowest cost to consumers. To accomplish this, analysis should be done to specifically define what reliability scenarios need improvement, various solutions should be explored that relate to both supply and demand, and the expected costs and benefits of each approach should be detailed to the greatest degree possible.

E3's market design report falls short in all three of these categories. More consideration is needed of the specific reliability scenarios that market reform should address. Data show that the Winter Storm Uri event was largely an operational availability failure, yet the solutions outlined in the E3 report point more broadly to a perceived supply-side resource adequacy problem. As such, the report details one size fits all solutions that do not specifically target some of the most pressing problems identified to date, including operational availability shortcomings during extended winter storms and challenges related to increasing summer ramp demands. Nor does the report adequately explore mechanisms that can contribute to meeting these needs on the demand side of the equation.¹

¹ *Texas Has an Obvious Affordable Fix for Its Electricity Problem*. Wall Street Journal. December 15, 2022. <https://www.wsj.com/articles/texas-has-an-obvious-affordable-fix-for-its-electricity-problem-11671067175>

AARP is deeply concerned about the growing cost burden placed on electricity ratepayers in Texas. Electricity costs have risen 40-70% in the past year. A recent report found that over 40% of Texans are energy-insecure, which means that many older people and families with small children are setting their thermostats at unsafe levels and going without some food, medicine and other necessities to try to pay their bills.² While some of the cost drivers are beyond the control of the Commission, others are directly tied to Commission and ERCOT action over the past 18 months. Earlier this month, the Independent Market Monitor (“IMM”) estimated the “conservative operating posture” employed by the Commission has resulted in additional non-spinning reserve services between August 2021 and July 2022 to cost between \$800 million and \$1 billion. Changes to the scarcity pricing mechanism since the beginning of this year are estimated to be approximately \$1.6 billion.³ In its latest State of the Market report, the IMM states that, “although this additional procurement may increase reliability in some hours, the potential reliability benefits are difficult to justify based on the costs.”⁴

Proposals considered in E3’s report will cost Texas consumers even more on their electricity bills. The PCM proposal in particular is estimated to cost \$480 million, yet it is unclear how much confidence to put in that figure as the IMM and some market participants have identified what they believe to be a number of errors in the E3 analysis that may impact overall cost and benefit conclusions reached in the report.⁵

AARP urges the Commission extreme caution before adopting a novel and complex program that will add to the cost burden already placed on Texas ratepayers. AARP requests the Commission consider alternatives, including a new uncertainty product broadly outlined by the Texas Association of Manufacturers and the IMM in the Senate Business and Commerce hearing on November 17th, 2022. More specificity on this type of proposal is reflected in a December 14, 2022 filing by the Coalition for Dispatchable Reliability Reserve Service in Project No. 52373. This approach would create a new ancillary service to address the operational challenges facing

² *In Nation’s Energy Capital, 45% of Texans Cut Spending on Basics to Pay for Energy Bills*. Dallas Morning News. <https://www.dallasnews.com/business/energy/2022/11/11/in-nations-energy-capital-45-of-texans-cut-spending-on-basics-to-pay-for-energy-bills/>

³ IMM testimony at Senate Committee on Business and Commerce meeting of November 17, 2022.

⁴ IMM 2021 State of the Market Report. Released May 2022. <https://www.potomaceconomics.com/wp-content/uploads/2022/05/2021-State-of-the-Market-Report.pdf>

⁵ IMM testimony at Senate Committee on Business and Commerce meeting of November 17 and comments of Alison Silverstein in this 54335 filed on December 9, 2022.

ERCOT now and in the future. This market-based product would be used to bring longer lead-time units online when ERCOT detects that conditions are departing from expectations. One big advantage of this more targeted approach to operational flexibility is that it could be implemented in a much shorter timeframe than various proposals contained in the E3 report. Finally, AARP requests the Commission explore demand side reliability solutions on a parallel track with other with market reform efforts. Demand side considerations deserve to be considered concurrently with broader reforms as actions on that front will may very well impact the selection of future market reforms.

Respectfully submitted,

A handwritten signature in black ink that reads "Tim Morstad". The signature is written in a cursive, slightly slanted style.

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