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REVIEW OF MARKET REFORM ASSESSMENT PRODUCED BY ENERGY AND ENVIRONMENTAL ECONOMICS, INC. (E3)	§ § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

REP COALITION COMMENTS ON QUESTIONS REGARDING E3 REPORT

The Alliance for Retail Markets ("ARM")[1] and Texas Energy Association for Marketers ("TEAM")[2] (collectively, the REP Coalition) submits the following comments in response to the November 10, 2022 questions from the Public Utility Commission of Texas ("Commission") regarding the Assessment of Market Reform Options to Enhance Reliability of the ERCOT System by Energy and Environmental Economics, Inc. ("E3"). The REP Coalition's comments focus primarily on considerations that retail electric providers ("REPs") would broadly share regarding the implementation of any contemplated market design changes, and therefore do not respond to questions about the efficacy of any particular proposal.

I. BACKGROUND

The competitive retail electric market in ERCOT has provided Texans and Texas businesses with a wide array of innovative electricity products and service plans for more than 20 years. While reliability and avoidance of outages is the primary consideration, the ability of customers to continue to receive affordable, competitively priced contracts is critical for Texas. Both objectives can be accomplished.

A fair and open wholesale market that incentivizes long-term reliability is essential for a robust competitive retail electric market that provides the best prices, products, and services for customers. In evaluating market structure changes in ERCOT, the REP Coalition urges the Commission to prioritize the following principles:

- Implementation of wholesale market structure changes should provide transparent and manageable cost to REPs and should enable REPs to proactively manage the cost of wholesale supply for their load, which is similar in principle to the need for REPs to hedge their energy needs in today's market structure.

[1] ARM also files separate comments to some of the Commission's questions.

[2] TEAM also files separate comments to some of the Commission's questions.

- The continued success of the retail electric market depends on the ability of REPs to know and manage costs. When costs are understood and risks are manageable, competition will drive the greatest value for customers.
- Out-of-market actions (e.g., Reliability Unit Commitment ("RUC") utilization) may shore up reliability in the shorter term but may create negative long-term reliability consequences and lead to higher prices for customers.
- The sooner the Commission concludes its evaluation of Phase II market design proposals, the sooner REPs can plan for the future to help ensure the prices REPs offer customers are realistic and as stable as possible.

II. COMMENTS

1. **The E3's report observes that the PCM has no prior precedent for implementation, does this fact present a significant obstacle to its operation for the ERCOT market?**

The REP Coalition has no comment in responses to the PCM aspect of this question at this time. With that said, the Commission need not be limited to only implementing mechanisms that are in place in other areas of the country. The ERCOT competitive market is the most successful in the country – it was a trailblazer when first initiated and remains the model for retail electric choice, and ERCOT has implemented many unprecedented and innovative changes to the market in its history. So long as the market design changes adopted by the Commission are transparent, competitively neutral, and yield relatively predictable and manageable costs, such changes should enable the retail competitive market to continue to flourish.

2. **Would the PCM design incentivize generation performance, retention, and market entry consistent with the Legislature's and the commission's goal to meet demand during times of net peak load and extreme power consumption conditions? Why or why not?**

The REP Coalition has no comment in responses to this question at this time.

3. **What is the appropriate reliability standard to achieve the goals stated in Question 2? Is 1-in-10 loss of load expectation (LOLE) a reasonable standard to set, or should another standard be used, such as expected unserved energy (EUE). If recommending a different standard, at what level should the standard be set (e.g., how many MWh of EUE per year)?**

The REP Coalition recommends that the PUCT's reliability objective should be achieved through market-based mechanisms that meet the requirements of Senate Bill 3 (PURA § 39.159).

At this time, the REP Coalition does not take a position on what the appropriate reliability objective should be.

4. **The E3 report examines 30 hours of highest reliability risk over a year. Is 30 the appropriate number of hours for this purpose? Should the reliability risk focus on a different measure?**

At this time, the REP Coalition does not take a position on the appropriate number of hours of reliability risk, but any measure of reliability risk that the Commission may adopt must be reasonably predictable and transparent to market participants in order to enable REPs to manage risk and promote stability in the retail and wholesale market.

5. **Over what period should the hours of highest reliability risk be determined? A year, a season, a month, or some other interval? At what point in time should that determination be made?**

At this time, the REP Coalition does not take a position on which period the hours of reliability risk should be determined, but reiterates that any measure of reliability risk that the Commission may adopt must be reasonably predictable and transparent to market participants to enable REPs to manage risk and promote stability in the retail and wholesale market.

6. **Would a voluntary forward market for generation offers and a mandatory residual settlement process for LSE procurement provide additional generation revenue sufficient to incentivize resource availability in a way that improves reliability?**

The REP Coalition has no comment in responses to this question at this time.

7. **Does a centrally cleared market through ERCOT sufficiently mitigate the risk of market power abuse? Should additional tools be considered?**

The REP Coalition believes that a centrally cleared market through ERCOT could provide transparency to market participants and visibility for the Independent Market Monitor to mitigate the risk of market power abuse, similar to how such risks are mitigated in ERCOT's centrally cleared Day-Ahead Ancillary Service markets today. Depending on the size and scope of the market and the liquidity of the product, additional measures may need to be considered.

Combined responses to questions 8, 9, and 11 related to bridge products

8. **If the commission adopts a market design with a multi-year implementation timeline, is there a need for a short-term "bridge" product or service, like the Backstop**

Reliability Service (BRS), to maintain system reliability equivalent to a 1-in-10 LOLE or another reliability standard? If so, what product or service should be considered?

9. **If implementing a short-term design as a "bridge" delays the ultimate solution, should it be considered? Is there an alternative to a bridge solution that could be implemented immediately, using existing products, such as a long-term commitment to buy the additional 5,630 MW of Ancillary services necessary to achieve the 1-in-10 LOLE reliability standard?**

11. **What is the fastest and most efficient manner to build a "bridge" product or service, such as the BRS, in order to start sending market signals for investment in new and dispatchable generation, while a multi-year market design is implemented by ERCOT? Please provide specific steps.**

Uncertainty and risk increase costs to serve retail customers. The REP Coalition could support appropriate short-term market-based solutions that provide REPs the ability to reasonably anticipate and manage costs. In pricing retail electric products, REPs cannot anticipate or properly hedge costs of any quickly implemented bridge products or services.

For example, in its recent rulemaking to amend 16 Texas Administrative Code ("TAC") § 25.475, the Commission rule precludes REPs from changing the price of current fixed price contracts for residential and small commercial customers due to changes in ancillary service costs, unless the Commission expressly designates otherwise.[3] Hence, if the Commission decides to implement any bridge products or services, then the REP Coalition respectfully requests that the Commission take into consideration the impact on REPs, which are the entities that will be first to bear the financial impact of those decisions.

Another bridge opportunity that could be implemented simultaneously to the broader Phase II improvements to reliability would be to better leverage existing programs to align incentives for REPs and other Load Serving Entities ("LSE") to facilitate offering additional demand response, which is a product uniquely within an LSE's purview as the service provider to the demand side of the market. Such modifications to demand response programs would more efficiently improve operating risk management tools in extreme market conditions and improve system reliability. There are approximately 7.2 million residential customers in the competitive areas of the State, and while the vast majority of these customers have an advanced meter (i.e., smart meter), only a small fraction (fewer than 1 million) have a smart thermostat, which is a device that can be

[3] 16 TAC § 25.475(b)(5).

controlled remotely to reduce electricity consumption when needed.[4] In the experience of the members of ARM, each residential customer with a smart thermostat could potentially yield an average of 1 kilowatt ("kW") of demand response when engaged. Because every customer in the competitive areas of ERCOT has a REP, REP-offered demand response programs would provide the best way to unlock this potential.

There are significant opportunities for more efficient utilization and expansion of demand response programs under the transmission and distribution utilities' ("TDUs") energy efficiency cost recovery rider ("EECRF") expenditures. The REP Coalition understands that the Commission is currently in the process of evaluating these programs. To this end, the REP Coalition would support amending 16 TAC §§ 25.181 and 25.182 to provide incentives for REP-administered demand response programs. To ensure cost-neutrality, the Commission should reallocate funds from low-performing programs to more efficient REP-offered demand response programs.

A relatively small amount of the TDUs' annual energy efficiency program amounts are dedicated to REP-offered energy savings products and services and to REP participation in residential load management SOPs.[5] The current criteria for setting a TDU's EECRF and method used to calculate the associated performance bonus do not include elements that are specifically designed to incentivize robust efforts to integrate REPs, and there is currently only one ERCOT TDU whose existing energy efficiency portfolio includes a smart thermostat program that utilizes REPs to promote the program to customers.

Amendments to the TDU energy efficiency programs should also prioritize REP-offered load management programs. Dedicating a greater portion of the TDUs' annual energy efficiency funding to REP-offered products and services would more efficiently and cost-effectively achieve reductions to customer electricity consumption during the summer and winter peak demand seasons. Increasing the amount of funding dedicated to REP-offered energy savings products and services and REP participation in TDU residential load management programs would expand the number of customers to whom REPs are able to offer demand response programs.

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[4] For REP-offered smart thermostat programs, customer participation is consent-based and customers retain the ability to over-ride the control of their thermostat.

[5] *See, e.g., CY 2022 Electric Utility Energy Efficiency Plan and Report under 16 TAC § 25.181*, Project No. 52949, Revision to CenterPoint Energy Houston Electric's 2022 Energy Efficiency Plan and Report at 31 (Jun. 1, 2022) (Table 11 lists 2021 total program expenditures with line items for individual programs).

10. What is the impact of the PCM on consumer costs?

On a customer-by-customer basis, it will depend on a number of factors. As is the case today, customers choose among a variety of terms and features designed to meet their individual needs. Therefore, there is not a singular pre/post comparison set for consumer costs. However, just like today, the competitive dynamic of the ERCOT retail electric market should optimize around customer preferences, such that REPs will have an incentive to supply customers with the greatest value at the lowest cost. REPs can also utilize demand response and distributed energy resource offerings to help manage costs.

That said, both regulatory uncertainty and uncertainty inherent in any specific market design increases costs to serve retail customers. The sooner the Commission makes a decision on appropriate market design changes and those changes are designed, the sooner REPs can price the value of the reliability products/services and ensure a stable and robust competitive retail market. However, the market design that the Commission adopts must be reasonably predictable and transparent to market participants in order to enable REPs to manage risk and provide customers the best service at the lowest cost.

12. In what ways could the Dispatchable Energy Credit (DEC) design be modified through quantity and resource eligibility requirements, e.g. new technology such as small modular nuclear reactors, in such a way that it incentivizes new and dispatchable generation?

The REP Coalition has no comment in responses to this question at this time.

III. CONCLUSION

The REP Coalition appreciates the Commission's thoughtful work to improve the ERCOT wholesale market design as it is the foundation upon which ERCOT's retail competitive market will continue to thrive. The REP Coalition and its members are committed to continuing to participate in the Commission's Phase II efforts to design a market structure that incentivizes short-term and long-term reliability so that our competitive electricity market continues to produce innovative products and services at the best value for customers.

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Respectfully submitted,

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EXECUTIVE SUMMARY OF REP COALITION COMMENTS ON QUESTIONS REGARDING E3 REPORT

- The REP Coalition urges the Commission to prioritize the following principles:
  - Implementation of wholesale market structure changes should provide transparent and manageable cost to REPs and should enable REPs to proactively manage the cost of wholesale supply for their load, which is similar in principle to the need for REPs to hedge their energy needs in today's market structure.
  - The continued success of the retail electric market depends on the ability of REPs to know and manage costs. When costs are understood and risks are manageable, competition will drive the greatest value for customers.
  - Out-of-market actions (e.g., RUC utilization) may shore up reliability in the shorter term but may create negative long-term reliability consequences and lead to higher prices for customers.
  - The sooner the Commission concludes its evaluation of Phase II market design proposals, the sooner REPs can plan for the future to help ensure the prices REPs offer customers are realistic and as stable as possible.
- The Commission need not be limited to only implementing mechanisms that are in place in other areas of the country. So long as the market design changes adopted by the Commission are transparent, competitively neutral, and yield relatively predictable and manageable costs, such changes should enable the retail competitive market to continue to flourish.
- The Commission's reliability objective should be achieved through market-based mechanisms that meet the requirements of Senate Bill 3. At this time, the REP Coalition does not take a position on what the appropriate reliability objective should be.
- Any measure of reliability risk must be reasonably predictable and transparent to market participants in order to enable REPs to manage risk and promote stability in the retail and wholesale market.
- A centrally cleared market through ERCOT could provide transparency to market participants and mitigate risk of market power abuse. Depending on the size and scope of the market and the liquidity of the product, additional measures may need to be considered.
- The REP Coalition could support appropriate short-term market-based solutions that provide REPs the ability to reasonably anticipate and manage costs. Because § 25.475 precludes REPs from changing the price of current fixed price contracts for residential and small commercial customers due to changes in ancillary service costs unless the Commission expressly designates otherwise, we respectfully request that the Commission take into consideration the financial impact on REPs.
- Another bridge opportunity that could be implemented simultaneously would be to better leverage existing programs to align incentives for REPs and other LSEs to facilitate offering additional demand response, which is a product uniquely within an LSE's purview as the service provider to the demand side of the market. The REP Coalition would support amending 16 TAC §§ 25.181 and 25.182 to provide incentives for REP-administered demand response programs. To ensure cost-neutrality, the Commission should reallocate funds from low-performing programs to more efficient REP-offered demand response programs.