



## Filing Receipt

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**PUC PROJECT NO. 54335**

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

**ALLIANCE FOR RETAIL MARKETS’  
COMMENTS ON QUESTIONS REGARDING E3 REPORT**

The Alliance for Retail Markets (“ARM”) submits the following comments in response to 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”).<sup>1</sup>

**I. BACKGROUND**

ARM represents a coalition of retail electric providers (“REPs”) in Texas that provide competitive retail electric service across the state.<sup>2</sup> ARM believes that a long-term load-side reliability solution, such as the Performance Credit Mechanism (“PCM”), can help ensure reliability and stability of the ERCOT market. The biggest threat to the continuation of the competitive retail market is reliability risk and the recurrence of grid outages. Patchwork fixes (e.g., increasing procurement of ancillary services and Reliability Unit Commitment utilization) may shore up reliability in the shorter term but may create negative long-term reliability consequences and lead to higher prices for customers. Consequently, 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?**

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<sup>1</sup> ARM is also separately filing comments as part of the REP Coalition.

<sup>2</sup> The members of ARM participating in this project are Calpine Retail (Calpine Energy Solutions and Champion Energy Services); Constellation New Energy, Inc; NRG Retail Companies (Reliant, Green Mountain Energy Company, U.S. Retailers LLC (Cirro Energy and Discount Power), StreamSPE, Ltd., XOOM Energy Texas, LLC, and the Direct Energy family of retail electric providers); and Vistra Retail Companies (4Change Energy, Ambit Energy, Express Energy, TriEagle Energy, TXU Energy, and Veteran Energy).

No. The Commission should not feel constrained by the lack of prior precedent for implementation of the PCM. So long as the market design changes adopted by the Commission are transparent 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?**

ARM has no comment regarding generation performance, retention, and market entry. However, ARM does note that the PCM design would encourage demand response ("DR") and other load-side resources to help manage PCM exposure. Specifically, because PCM costs would be allocated to Load Serving Entities ("LSEs") based on their contribution to high risk hours like net peak load for certain designated periods, LSEs (like REPs) would have a significant incentive to reduce their load during those periods. REP-offered DR programs would be a powerful tool to facilitate those reductions. In that way, the PCM would at the very least incentivize the demand-side inputs to net peak load while helping to manage extreme power consumption.

**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)?**

ARM would support the Commission's adoption of a mandatory reliability standard achieved through market-based mechanisms that meet the requirements of Senate Bill 3 (PURA § 39.159). At this time, ARM does not take a position on what the specific reliability standard should be, but recognizes that the 1-in-10 LOLE standard is in common usage and therefore a likely starting point.

**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, ARM 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. Those objectives may be achieved with a slightly larger number of hours to reduce PCM outcomes' correlation to weather risk – but ARM agrees with the point made by E3 in its technical conference that 100 hours should be the upper boundary to avoid assigning PCs during periods that are not representative of higher risk.

**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, ARM does not take a specific 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. To the extent that REPs have better information about their customer base and usage patterns going into a particular season, a seasonal approach may strike a workable balance.

**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?**

ARM 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?**

ARM defers to the REP Coalition's comments on this question and has no additional comment in response at this time.

**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.**

ARM refers the Commission to the REP Coalition’s comments on these questions. In addition, ARM maintains that the Commission should not adopt a short-term “bridge” product or service if doing so would delay implementation of a long-term reliability solution. Uncertainty and risk increase costs to serve retail customers. With that said, ARM could support appropriate short-term market-based solutions that provide REPs the ability to reasonably anticipate and manage costs, so as not to solely carry the risk associated with an unknown future regulatory change.

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

ARM refers the Commission to the REP Coalition’s comments on these questions. In addition, ARM maintains that if adopted, the PCM should provide a meaningful incentive for REPs to help customers manage their electricity usage through enhanced demand response and distributed energy resource offerings.

Regulatory uncertainty increases costs to serve retail customers. The sooner the Commission makes a decision on market design changes, 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. The PCM can achieve this by utilizing a flatter, rather than steeper, demand curve; utilizing a seasonal rather than annual cadence; communicating the demand curve well in advance of the forward market; incorporating policies that encourage forward market participation; and allowing for bilateral trades to supplement the forward market. These refinements will reduce volatility in the PCM outcomes while allowing REPs to manage their financial risks associated with the PCM.

As an aside, ARM is aware of certain stakeholders arguing that the PCM is akin to a “capacity market” and that it is incompatible with retail competition because other regions with such constructs have weak retail competition. Such arguments are red herrings. First, the PCM is not a traditional capacity market seen in other regions, as it is at its core a “pay for performance” construct. Second, other regions have struggled with retail competition not because of their market designs, but rather because of other policies that stifle customer choice, such as continued default

service under the vertically integrated utility and relegating retail choice to a line item on that utility's bill instead of allowing the REP to fully own the customer experience through supplier consolidated billing. These barriers preclude those markets from unlocking innovative offerings that utilities' billing platforms cannot support. Finally, arguments that the PCM would harm retail choice or be "too risky" for REPs are unfounded; the competitive retail market in ERCOT has survived many market design reforms and will continue to do so under PCM.

**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?**

ARM recognizes the interest in this question but notes that fundamental economic problems with the DEC framework, as illustrated by the E3 report, would likely not yield the desired reliability outcomes.

### **III. CONCLUSION**

ARM 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. ARM and its members are committed to continuing to participate in the Commission's Phase II efforts to design a market structure that incentivizes 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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**ATTORNEYS FOR ALLIANCE FOR RETAIL MARKETS**

**ALLIANCE FOR RETAIL MARKETS'**  
**EXECUTIVE SUMMARY TO COMMENTS ON E3 REPORT**

- ARM believes that a long-term load-side reliability solution, such as the PCM, can help ensure reliability and stability of the ERCOT market.
- Patchwork fixes (e.g., increasing procurement of ancillary services and 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. Consequently, 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 should not feel constrained by the lack of prior precedent for implementation of the PCM. So long as the market design changes adopted by the Commission are transparent and yield relatively predictable and manageable costs, such changes should enable the retail competitive market to continue to flourish.
- PCM design would encourage DR and other load-side resources to help manage PCM exposure. Specifically, because PCM costs would be allocated to Load Serving Entities (“LSEs”) based on their contribution to high risk hours like net peak load for certain designated periods, LSEs (like REPs) would have a significant incentive to reduce their load during those periods. REP-offered DR programs would be a powerful tool to facilitate those reductions.
- ARM would support the Commission’s adoption of a mandatory reliability standard achieved through market-based mechanisms that meet the requirements of Senate Bill 3. At this time, ARM does not take a position on what the specific reliability standard should be, but recognizes that the 1-in-10 LOLE standard is in common usage and therefore a likely starting point.
- 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. ARM agrees with E3 in its technical conference that 100 hours should be the upper boundary to avoid assigning PCs during periods that are not representative of higher risk.
- The Commission should not adopt a short-term “bridge” product or service if doing so would delay implementation of a long-term reliability solution. Uncertainty and risk increase costs to serve retail customers. With that said, ARM could support appropriate short-term market-based solutions that provide REPs the ability to reasonably anticipate and manage costs, so as not to solely carry the risk associated with an unknown future regulatory change.
- If adopted, the PCM should provide a meaningful incentive for REPs to help customers manage their electricity usage through enhanced demand response and distributed energy resource offerings.
- Certain stakeholders have made red herring arguments about the PCM and its compatibility with retail competition. Those arguments are unfounded.