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PROJECT NO. 54335

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

CITY OF GARLAND'S COMMENTS ON E3 REPORT AND RESPONSE TO STAFF'S QUESTIONS

The City of Garland (Garland) appreciates the opportunity to respond to E3's market design report and Commission Staff's questions, as filed in this project. Garland began providing electric utility service to its residents in 1923. Garland currently serves over 73,000 retail electric customers,

On November 15, the Commission published its request for comments in the Texas Register, seeking comments by December 15 at noon. Comments are limited to 25 pages, not including an executive summary. These comments are timely filed and within the page limit.

I. General Comments

With an economy in excess of $2 trillion, if Texas were a nation, it would be recognized as the world's ninth largest economy – larger than Canada, Russia, and Australia. Obviously, the success of the Texas economy, the success of the people of Texas, is inextricably tied to the ERCOT grid (as goes the ERCOT grid, so goes Texas). It is imperative the impacts (e.g., costs, reliability, service levels) associated with whatever changes or modifications to the ERCOT market be fully vetted and understood, not just by those that develop and propose the changes, but by those that have to ultimately live with the changes – ERCOT market participants; elected officials; businesses; citizens; ratepayers. The market redesign proposals brought forth in the E3 Report are administratively complex and in some cases novel. Garland has significant concerns and questions regarding the feasibility and workability of these proposals in light of the intent and objectives set forth in Senate Bill 3.

Garland believes the Commission should support an initiative that aligns with the intent and objectives set forth by the State Legislature in Senate Bill 3: (1) guarantees the timely construction of new, dispatchable generation, (2) mitigates costs to end-use consumers, (3) preserves the current competitive market, (4) is straightforward and easily understood, and (5) provides certainty to the participants in the ERCOT market. Garland believes the aforementioned summarize the intent and objectives set forth by the State Legislature in Senate Bill 3. Garland offers to the Commission a "bridge" proposal product that meets the intent and objectives set forth in Senate Bill 3.

II. Response to Staff's Questions for Comment

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

   No response

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?*

   No response

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)?*

No response

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?*

No response

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?*

No response

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?*

No response

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

No response

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?*

According to E3, the Load Serving Entity Reliability Obligation (LSERO), the Forward Reliability Market (FRM), the Performance Credits Mechanism (PCM), the Backstop Reliability Service (BRS), and Dispatchable Energy Credits (DEC) market redesign proposals could take up four years to fully implement.[1] However, this timeframe seems unrealistic given the number of significant projects Electric Reliability Council of Texas (ERCOT) has outstanding and ERCOT's

[1] Project No. 54335, Assessment of Market Reform Options to Enhance Reliability of the ERCOT System at 81-82 (Nov. 10, 2022) ("E3 Report")

historical performance in completing major system initiatives. For example, Real-Time Co-optimization (RTC), which the Commission ordered ERCOT to implement in January 2019, is still in the planning stages, despite undergoing substantially more discussion, examination, and design work than the proposed market redesign proposals.[2] Commission projects on RTC date back to September 2013.[3] ERCOT suggested that the RTC implementation would take four-to-five years *after* Commission policy decisions had been made and applicable Protocol changes had been approved by the ERCOT Board.[4] However, the rulemaking the Commission opened in December 2020 to implement RTC, to-date has no filings, only a project number request.[5] The changes to ERCOT system for RTC are more narrow than the wide-ranging market redesign proposals would require.

It should be mentioned that at E3's December 2, 2022 technical conference, E3 staff noted their evaluation of the market redesigns assumes full optimization. So it can be inferred that to realize E3's purported benefits from the market redesign proposals, RTC would need to be completed prior to implementing the selected market redesign.

It is also unclear whether ERCOT would be able to implement these market redesign proposals in the near future, given planned upgrades to its Energy Management System (EMS), which is currently scheduled to take place mid-2023 through mid-2024. The EMS upgrade has already been substantially delayed, and if delayed further, could pose operational risks for ERCOT by using an outdated EMS system.

With the understanding that any major market redesign could not be fully implemented for at least four years and, more realistically, much later, Garland believes the Commission should support an initiative that (1) guarantees the timely construction of new, dispatchable generation, (2) mitigates costs to end-use consumers, (3) preserves the current competitive market, (4) is straightforward and easily understood, and (5) provides certainty to the participants in the ERCOT

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[2] *Review of Real-Time Co-Optimization in the ERCOT Market*, Project No. 48540, Memo from Chairman DeAnn T. Walker (Jan. 17, 2019) and Letter to Chairman and Commissioners (Jan. 31, 2019).

[3] *See PUCT Review of Real-Time Co-Optimization in the ERCOT Region*, Project No. 41837, ERCOT and IMM Joint Report Regarding Real-Time Co-Optimization of Energy and Ancillary Services in the ERCOT Markets (Dec. 12, 2013).

[4] *PUCT Review of Real-Time Co-Optimization in the ERCOT Region*, Project No. 41837, Electric Reliability Council of Texas, Inc.'s Progress Report Regarding Real-Time Co-Optimization (July 14, 2017).

[5] Project No. 51588, *Rulemaking to Implement Real-Time Co-optimization in the ERCOT Market*.

market. Garland believes the aforementioned summarize the intent and objectives set forth by the State Legislature in Senate Bill 3.

Garland does not believe that any of the market redesign proposals studied in the E3 Report fully meet the intent and objectives of Senate Bill 3. The proposals only attempt to entice new, dispatchable generation to be built; there is no guarantee the potentially substantial cost to end-use consumers will result in new, dispatchable generation being built. If new, dispatchable generation is built, it could be many years before ERCOT realizes this new generation, and to what extent and cost.

E3 estimates the proposals are likely to cost $400 to $500 million more than the current energy only market.[6] These costs coupled with ERCOT's conservative operations, $800 million in additional expense from August 2021 – July 2022, and the flattening of the Operating Reserve Demand Curve (ORDC), $1.6 billion in additional costs year-to-date through October 1, 2022, are significant costs to end-use consumers, with no guarantee of new, dispatchable generation being built.[7] In addition, these proposals will likely make it more difficult for smaller retail electric providers (REPs) to remain in the ERCOT market and limit entry of new REPs, significantly changing the current competitive retail market landscape. With less competition amongst REPs, it is likely the end-use consumer will see higher costs as innovation decreases and the remaining REPs consolidate.

The novelty and sizable departure from ERCOT's current market structure makes these proposals administratively complex to implement, affecting the ability of market participants to clearly understand not only the immediate effects of the proposed changes, but also the long-term effects.[8] Investment in new, dispatchable generation requires regulatory certainty. Through their novelty and complexity, the proposals only enhance regulatory uncertainty, with the only certainty being more costs to the end-use consumer.

Garland offers to the Commission the following proposal that: (1) guarantees the timely construction of new, dispatchable generation, (2) mitigates costs to end-use consumers, (3) preserves the current competitive market, (4) is straightforward and easily understood, and (5) provides certainty to the participants in the ERCOT market.

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[6] E3 Report at 69.
[7] *Report to the Texas Senate Committee on Business & Commerce*, Potomac Economics (November 17, 2022)
[8] E3 Report at 83-84

Garland's proposal is based on the following principles:

- Based on the target reliability standard, ERCOT determines the (1) amount; (2) type; (3) location; and (4) size of new, dispatchable generation that is cost-effective and needed for assured response during emergencies or periods of insufficient resource availability
- The new, dispatchable generation will be required to be dual-fuel, black-start capable, and maintain at least 48 hours of fuel onsite
- The State funds and owns the proposed new, dispatchable generation facilities
- ERCOT or a selected State agency competitively bids for the construction of the new, dispatchable generation facilities
- The State enters into a contract(s) with a public entity(ies) to provide construction oversight and operations and maintenance services for the new, dispatchable generation facilities
- By its own determination, the State may assess a fee, charge or other type of recovery mechanism to ERCOT to recoup its investment costs in the new, dispatchable generation facilities over the life of these facilities
- The new, dispatchable generation facility verifiable operations and maintenance costs shall be recovered through an ERCOT charge
- The new, dispatchable generation units will be dispatched only during periods when ERCOT operating reserves drop below a predetermined level, such as just prior to firm load shed, and will be accounted for such that Real Time Market prices will not be influenced by the units' dispatch
- The new, dispatchable generation units will be required to be periodically tested to ensure reliability; units will be tested on an alternating basis
- Revenues generated from the use of the new, dispatchable generation units during periods when ERCOT operating reserves drop below the predetermined level or during facility testing will be used to offset the capital and verifiable operation and maintenance costs of these facilities
- Proceeds from the sale of any of the new, dispatchable generation units will be used to offset the capital and verifiable operation and maintenance costs of these facilities

- ERCOT will prepare and publish a monthly report of revenues, expenses, and generation associated with all these new, dispatchable generation facilities

Garland's proposal guarantees that new, dispatchable generation will be built. Assuming E3's incremental natural gas generating capacity of 5,630 MW needed to meet the 0.1 loss of load expectation (LOLE)[9], a capacity cost of $1,000/kW, and a 20-year life for the new facilities, the annualized capital cost for these facilities is $281.5 million, much less than the $400 to $500 million for the proposals studied by E3. In addition, with the guaranteed addition of this new, dispatchable generation, ERCOT can cease its conservation operations, reducing cost to consumers by $800 million annually. With ERCOT being able to cease its conservative operations, its aggressive procurement of ancillary services, and dispatching generating units out of economic merit (RUC), scarcity pricing will not be suppressed, helping to incentivize new generation.

Furthermore, assuming the facilities are dispatched 4 hours a year when ERCOT operating reserves drop below the predetermined level and the units are tested on average 120 hours per year, the revenue generated by these units could reasonably approach $120 million annually, which would further offset the cost of these facilities and ultimately the cost to end-use consumers. Garland's proposal will not only guarantee new, dispatchable generation will be built, but has the potential to reduce costs to end-use consumers.

Garland's proposal will provide adequate time to determine if the Phase I market design changes have resulted in sufficient and certain revenue streams to support existing generation and incentivize new dispatchable generation. This proposal would also allow ERCOT to make greater progress on its project queue, including the EMS upgrade and RTC. These projects should help to contribute to the success of the Phase 1 changes. If not, the market structure will likely need minor modifications, such as an ancillary service product as envisioned by Senate Bill 3, not a complete market redesign overhaul. Since the operation of the new, dispatchable generation will be accounted for such that Real Time Market prices will not be influenced by the units' dispatch, there will not be an immediate change in the current ERCOT market design, thus preserving the current competitive retail market structure. Garland's proposal is simple and straightforward without the administrative complexity of the proposals in the E3 Report and since there is not a

[9] Comments made by the Independent Market Monitor (IMM) indicate the need for 5,630 MW of new generation identified in the E3 Report is overstated.

wholesale change to the current market design, revenue and regulatory certainty remains for market participants.

Garland's proposal aligns with the intent and objectives of Senate Bill 3 and provides electric ratepayers, voters, and businesses the reassurance that officials have addressed their concerns about the reliability of the ERCOT grid with a guarantee of new, dispatchable generation built in an expeditious and cost-effective manner.

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?*

   No response

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

    No response

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.*

    No response

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?*

    No response

III. Conclusion

Garland appreciates the opportunity to submit these comments. Garland looks forward to working with the Commission, its staff, and the stakeholders on these important questions and this broader discussion in the coming months.

Dated: December 12, 2022

Respectfully,

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EXECUTIVE SUMMARY OF CITY OF GARLAND'S COMMENTS ON E3 REPORT AND RESPONSE TO STAFF'S QUESTIONS

Garland believes the Commission should support an initiative that aligns with the intent and objectives set forth by the State Legislature in Senate Bill 3: (1) guarantees the timely construction of new, dispatchable generation, (2) mitigates costs to end-use consumers, (3) preserves the current competitive market, (4) is straightforward and easily understood, and (5) provides certainty to the participants in the ERCOT market. The success of Texas is inextricably tied to the ERCOT grid (as goes the ERCOT grid, so goes Texas). It is imperative the impacts (e.g., costs, reliability, service levels) associated with whatever changes or modifications to the ERCOT market be fully vetted and understood, not just by those that develop and propose the changes, but by those that have to ultimately live with the changes – ERCOT market participants; elected officials; businesses; citizens; ratepayers. Garland's "bridge" proposal product is easily understood and straightforward and aligns with the intent and objectives of Senate Bill 3. Garland's proposal provides electric ratepayers, voters, and businesses the reassurance that officials have addressed their concerns about the reliability of the ERCOT grid with a guarantee of new, dispatchable generation built in an expeditious and cost-effective manner.