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The Energy Professionals Association (TEPA)
Comments Submitted to the Public Utility Commission of Texas
in Project No. 54335
Review of Market Reform Assessment Produced by E3
December 15, 2022

TEPA was founded in 2005 in Texas, by a group of Aggregators, Brokers and Consultants commonly referred to as "ABCs" who came together to create a self-regulating body to promote a standardized code of conduct among its members. In November 2022, TEPA announced its acquisition of Energy Professionals of Ohio (EPO), which is the third expansion for TEPA outside ERCOT within the last nine years. In December 2013, TEPA expanded into the Northeast U.S., consisting of PJM Interconnection, NYISO and ISO-NE. In 2018, TEPA acquired The Illinois Professionals Association that operates in MISO.

At present, we have more than 150 member organizations, which represent over 10,000 energy professionals who are TEPA members. Our Aggregators, Brokers and/or Consultant members offer energy procurement and related services for a wide range of end users. Retail Energy Providers make up our Associate membership base, while organizations that offer products, technology or services that support the competitive energy industry are Affiliate members.

TEPA members have experience working in every competitive market and specialize in procurement, structuring, pricing, demand response programs, risk management, renewable energy, advancements in energy technologies, etc. and more. Our members represent approximately 82% of brokered power transactions in the United States. To see a full and current list of all TEPA member companies, please go to: https://www.tepausa.org/current-members/

Comments of The Energy Professionals Association

The Energy Professionals Association (TEPA) appreciates the opportunity to provide comments on E3's review and assessment of potential Phase 2 market reforms, and applauds the Public Utility Commission of Texas (commission) for the significant accomplishments to date – addressing recovery from Winter Storm Uri and enacting associated market reforms through the ongoing implementation of Phase 1 refinements.
We recognize, as well, the tremendous effort associated with the development and review of potential Phase 2 market design changes being considered by the commission, and we appreciate the work being undertaken

through Project 54335 to more fully vet proposals contained in the E3 report, to clearly identify the nature and scope of any additional Phase 2 reforms that may be needed, and to seek innovative solutions to address the reliability needs of the ERCOT market.

Through a joint filing, made on December 14, 2022, in conjunction with other members of *The Coalition for Dispatchable Reliability Reserve Service* in Project No. 52373, TEPA has endorsed the proposed creation of a Dispatchable Reliability Reserve Service (DRRS). We respectfully urge the commission to consider this mechanism, built on the Uncertainty Product advocated by the ERCOT IMM, as the best way to ensure the supply of reliable and affordable electricity needed to support continued economic growth in Texas.

Recognizing that today's power sector is incredibly diverse and complex, and the modern world must rely on a suite of diverse solutions to "keep the lights on", we urge the commission to allow additional time to thoroughly weigh proposed Phase 2 market design changes considered in the E3 report – and to consider other viable market design alternatives proposed such as the Dispatchable Reliability Reserve Service (DRRS). We respect the pressing nature of the challenges facing the commission as it seeks to address operational reliability risks in ERCOT and the longer-term policy goals embedded in the legislative directives of SB 3, but believe additional time and consideration are warranted for these important foundational decisions about ERCOT market re-design.

The magnitude of the questions, disputes, and proposed changes surrounding assumptions made in the E3 report, and the operational concerns related to retail billing and hedging all combine to create a high level of uncertainty for marketplace participants and consumers – with significant cost increases for retail consumers. The number and type of reservations expressed by stakeholders and market participants about the E3 report highlight the need for further analysis and more detailed discussions about potential solutions evaluated to date in the E3 report, as well as other proposals such as the DRRS.

TEPA and its members share stakeholder concerns that the evaluation of implementation of the PCM may not provide a sufficient detailed foundation for changes of such magnitude to the ERCOT market design – particularly given the potential costs associated with implementing the PCM, the related price increases and the material cost increases to consumers, the operational disruption related to retail billing challenges for fixed price customers, and the unpredictability of costs associated with projections for hedging.

We urge a more thorough and full vetting of all proposals, including the DRRS. Given the far-reaching consequences the proposals for various Capacity Market constructs would have for the ERCOT market,

including the potential for significant market disruption, we ask that the commission be guided by the principle of "doing no harm" by rejecting the imposition of any type of artificial deadline for formal consideration or adoption of the PCM.

Key foundational policy decisions should be made based on solid empirical ground. This requires comprehensive review of relevant data, and contextual evaluations of the impact of various changes and products being implemented in ERCOT – to ensure intended outcomes and meet targeted goals that can be operationalized in the necessary timeframe, at costs reasonably close to those projected, prioritized and scaled appropriately to mitigate the range of known reliability risks, while preserving robust price competition and competitive choice for Texas consumers. A thorough empirical review is also necessary to minimize the inevitable unintended consequences of such a broad and complex undertaking.

TEPA appreciates the commission's consideration of the Coalition's alternate DRRS proposal for the ERCOT market redesign in the context of the discussion about the various Capacity Market Constructs contemplated by the E3 Report. TEPA respectfully requests consideration of the coalition proposal and will be available to address any commission questions with respect to TEPA's consideration or endorsement of this alternate proposal.

TEPA Comments on Questions in Project No. 54335 Regarding E3 Review

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?**

   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)?**

TEPA points to provisions in the E3 report indicating that further analysis would be needed to appropriately develop a reliability standard as required by SB 3. TEPA agrees and believes more comprehensive review and consideration of the appropriate resource adequacy reliability criteria is needed, and encourages additional analysis to determine with more specificity the reliability standard needed to achieve specific outcomes contemplated as policy goals in question 2.

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?**
   Issues related to ERCOT reliability problems should be fully identified and vetted before establishing a time frame for the number of hours for reliability 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?**
   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?**

   TEPA is not assured that a centrally cleared market through ERCOT would sufficiently mitigate the risk of market power abuse, nor are we clear on how market power would be addressed in the forward PC auctions. The PCM model creates new potential for market power abuse, in part by measuring reliability risk through operating reserves which could allow large generators to inappropriately influence reserves using their market position and knowledge. Additional safeguards should be considered for entities that have both resources and load (so called 'gen-tailers'), understanding that the commission has very limited power to engage in regulatory activities traditionally associated with overseeing affiliate transactions. There are concerns that instability related to the operational challenges of implementing the PCM could create significant market disruption and lead to fewer numbers of retail providers competing in the marketplace, thereby undermining price competition and customer choice, and creating new risks for concentrating market power. The proposal to incentivize construction of new generation by requiring retail energy providers to purchase Performance Credits (PCs) should include safeguards to prevent a generator from being able to game PCs to maximize profits.

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?**

   ERCOT's Reliability Must Run (RMR) mechanism could be modified to address timing issues related to retirements while allowing for and preserving the market signals needed to attract new investments. This would assuage any concerns with potential unexpected or extensive traditional generation retirements occurring more quickly than new thermal generation investment incentivized is installed based on market signals.

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?**

   To account for any unexpected case of extensive traditional generation retirements, ERCOT's Reliability Must Run ("RMR") mechanism, which currently supports retaining resources for capacity, could be modified to address timing issues related to retirements while allowing for and preserving the market signals needed to attract new investments.

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

    The proposed PCM and other Capacity Market constructs will ultimately shift investment risk costs from investors to end-use customers, contrary to the principles that led to restructuring of the electricity market. Proposed Capacity Market constructs are administratively complex, would severely impact the retail market, and increase costs to all consumers. The capacity charges associated with the PCM proposal alone are estimated to cost at least $5.7 billion annually, which equates to an increase of at least in 35.6% average wholesale energy cost, but would not effectively address the operational reliability concerns of ERCOT.

    Specific analysis contained in *The Coalition for Dispatchable Reliability Reserve Service* joint comments in Project NO. 52373 points out that the E3 report shows the net cost to be approximately $460 million per year as the $5.7B cost is partially offset by $5.2 billion reduction in energy and Ancillary Services costs on the system to achieve equilibrium. However, it will take many years to achieve equilibrium and hence the cost of procuring the capacity would be an addition to the current cost of Energy and Ancillary Service for many years. The IFC report shows the cost of LSEO (similar to PCM) to be $8.5B in the first year, and to be in the billions for several years after implementation. If we take 2021 excluding Uri as a typical year, cost for PCM would be $14.5/MWh ($21.63/MWh per ICF) based on 393B kWh used in 2021 per ERCOT and average energy cost of $40.73 MWh (excluding Uri per IMM state of the market report). For the first year, implementation of PCM, the increase in

cost of energy would be 35.6% based on E3's cost calculation and 53.1% based on IFC's cost calculation. It would increase anywhere from $14.5/MWh to $21.63/MWh per month, or $175 to $260/year for an average customer for many years.

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.**

    The proposed creation of a Dispatchable Reliability Reserve Service (DRRS), built on the Uncertainty Product advocated by the ERCOT IMM, is the best way to ensure the supply of reliable and affordable electricity needed to support continued economic growth in Texas. Specific steps are outlined in the joint comments filed by *The Coalition for Dispatchable Reliability Reserve Service* in Project NO. 52373.

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.

TEPA recognizes that there is not a single solution that is likely to fully address the current and future capacity needs for the Texas grid, but believes Texas consumers would benefit from a more conservative approach to incentivizing new generation – one that does not shift the risk of investment from generators to consumers – and that thorough and comprehensive review of additional proposed market designs, such as the DRRS, are warranted and valuable

Respectfully submitted,

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Executive Summary of

The Energy Professionals Association (TEPA) Comments

on PUCT Questions in Project No. 54335 Regarding E3 Report

Submitted December 15, 2022

- TEPA is a signatory on the December 14, 2022, joint filing submitted by *The Coalition for Dispatchable Reliability Reserve Service* in Project No. 52373, endorsing the proposed creation of a Dispatchable Reliability Reserve Service (DRRS).

- A thorough empirical review is necessary to minimize the potential for unintended consequences of such broad and complex undertaking such as the proposed PCM.

- TEPA believes more comprehensive review and consideration of the appropriate resource adequacy reliability criteria is needed to develop an updated reliability standard.

- TEPA has concerns about the potential for the proposed PCM market design changes to increase concentration of market power and to increase opportunities to exercise market power.

- The proposed PCM and other Capacity Market constructs will shift investment risk costs from investors to end-use customers, contrary to the principles that led to restructuring of the electricity market.

- TEPA is concerned about the significant potential cost and price increases associated with PCM implementation.