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RELIABILITY STANDARD FOR ERCOT MARKET	**§ §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TEXAS OIL & GAS ASSOCIATION'S COMMENTS

The Texas Oil & Gas Association (TXOGA) appreciates the opportunity to comment on Commission Staff's questions related to developing a reliability standard for the Electric Reliability Council of Texas (ERCOT) market.

TXOGA is a statewide trade association representing every facet of the Texas oil and gas industry including small independents and major producers. Collectively, the membership of TXOGA produces in excess of 80 percent of Texas' crude oil and natural gas, operates over 80 percent of the state's refining capacity, and is responsible for the vast majority of the state's pipelines. In fiscal year 2022, the oil and natural gas industry supported more than 443,000 direct jobs and paid $24.7 billion in state and local taxes and state royalties, funding our state's schools, roads and first responders.

Issues pertaining to ERCOT's reliability are of utmost importance to TXOGA members. Any interruption in grid service, even for a fraction of a second, can cause the shut-down of facilities. Such unexpected shutdowns impose all sorts of risks – from environmental to personnel safety, and financial impact. Unlike other consumers, when an industrial facility shuts down due to such a grid disruption, it could take hours to weeks to fully restore safe operations. Even operators that generate their own electricity rely on a functioning grid for safe and reliable operations. Therefore, TXOGA sees benefits from a carefully and thoughtfully designed reliability standard.

While reliability is critical, TXOGA recognizes that it comes at a cost. Given the value of electricity as an input to members' businesses, we don't shy away from paying for it. As with all things however, there are tradeoffs which must be considered. One could keep improving the expected reliability of ERCOT ad infinitum, but at some point, the cost will become too high for the value of the marginal improvement. The design of a reliability standard for ERCOT must find a way to balance this tradeoff.

Traditional reliability standards have been based on little more than a "rule of thumb" using very simple metrics like Loss of Load Expectation (LOLE) and Loss of Load Hours (LOLH). LOLE and LOLH tell us about the frequency and duration of a reliability event but give us no way of assessing the cost of an event. Without information about the cost one cannot assess the tradeoff of improved reliability relative to its cost.

Developing a reliability standard based on the Expected Unserved Energy (EUE) provides insight into the amount of energy consumption impacted by a reliability event. If the EUE is multiplied by the Value of Lost Load (VOLL) then we have an assessment of the value of improved reliability. Once we have the value then we can thoughtfully consider the appropriate cost of

further improvements. Any other approach is akin to throwing darts at the issue. Is too little being spent or too much? That can't be answered without knowing the EUE and the VOLL.

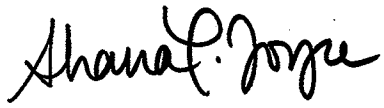
Two other critical aspects of a reliability standard are that (1) it is developed in an open and transparent process and (2) that it provides the proper incentives to load. If the process isn't open and transparent, then the standard will not be understood nor accepted by the market. This will have the harmful effect of reducing confidence in the ERCOT market and lead to continuous debate over the standard, creating market uncertainty going forward. As for incentivizing load, that side of the market is all too often overlooked when considering reliability improvements. If the reliability standard is built on a reasonable assessment of EUE and VOLL, then the standard will provide consumers with incentives to identify ways in which they too can support reliability.

The final point that TXOGA will offer for development of a reliability standard is to keep it simple. One cannot know ahead of time all the impacts that a standard will cause so it's best to keep it simple in its initial design. The Public Utility Commission (PUC) can add complexity to the standard in future projects if that is found to be needed.

TXOGA would appreciate further discussion on any proposal by the PUC to include requirements in the reliability standard to limit extreme events identified as part of the probabilistic grid modeling process. Protecting the system through an increase in a required reserve margin against very low probability extreme events may not be cost-effective. In addition, as this type of proposal would be a significant change in how the industry has traditionally developed reliability standards, it will be critical that such a change be considered in a completely transparent manner so that all stakeholders have an opportunity to provide input.

In conclusion, TXOGA supports the development of a reliability standard for ERCOT. That reliability standard should be developed through a transparent process in which the PUC and stakeholders weigh the tradeoffs of marginal improvements to reliability and the cost of achieving such improvements. Such a standard will lead the best outcomes for ERCOT customers and Texas.

Respectfully submitted,



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