



## **Filing Receipt**

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**PROJECT NO. 55000**

**PERFORMANCE CREDIT  
MECHANISM (PCM)**

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**PUBLIC UTILITY COMMISSION OF  
TEXAS**

**HUNT ENERGY NETWORK L.L.C. COMMENTS**

Hunt Energy Network, L.L.C. (“HEN”) submits the following comments in response to the Public Utility Commission of Texas (“PUCT” or “Commission”) Staff’s request for comment on the Performance Credit Mechanism (“PCM”) dated May 16, 2024.

While the concept of the PCM is a novel and unique approach to resolving evolving resource adequacy needs, recent stakeholder meetings have revealed significant challenges that may hinder the success of the product and, ultimately, may become more burdensome than beneficial to Texas customers. Challenges to a successful implementation of the PCM include:

1. \$1B Cost Cap - the net cost statutory guardrail makes it impossible to guarantee a Net-CONE payment in low energy price years and requires that the PCM significantly over-collect Net-CONE in scarcity years to compensate for significant under-payment in low energy price years. The first problem with this provision is the determination of net cost. The proposal compares the energy and ancillary service market costs under the PCM market to a simulated, future, fictitious Energy-Only ERCOT market. Capacity markets elsewhere transfer significant revenues from LSEs to Resources based on regulatory determination of certain parameters. These regulatory processes are often prone to contentious and litigious disagreements over the setting of such parameters, but those disagreements may pale in comparison to the expected regulatory battles over all the numerous modeling assumptions that would be used to determine the simulated market outcomes in a theoretical Energy-Only ERCOT market.
2. Collateral Requirements - ERCOT market credit provisions are designed to protect the market from market participant defaults. On average, the PCM payments would need to be approximately \$10B; paid by LSEs either at the time of the forward auction or, more likely, at the end of the year. In addition to having to make this enormous payment, invoiced at

the end of the year, the additional statutory guardrail of protecting the market from LSE defaults on PCM payments means that ERCOT would have to require approximately \$10B in collateral from LSEs for the entire year – more than doubling the current typical collateral requirement for LSEs for energy and ancillary services. Such an enormous increase in ERCOT credit requirements would be devastating to the independent LSE segment of the market and would likely result in an even more highly concentrated LSE segment, consolidating many of the smaller LSEs.

3. Long, Cold Winter Night – The State needs to incent the development of long duration dispatchable resources to ensure reliability during extreme winter storms. It does not appear that the PCM will do that. The current proposed PCM design would allocate most of the Performance Credit (“PC”) dollars to all available resources (except Intermittent Renewable Resources) primarily in the summer months because of the use of the Loss of Load Expectation criterion<sup>1</sup>. As an owner and operator of numerous batteries, HEN would benefit from this, but the objective here is to definitively address the problem. And as we know from Uri, the 2011 outages and earlier events, the problem is inadequate long-duration resources for extreme winter events. Focusing the price signal on those resources is what is required.

It is HEN’s belief that a thoughtfully-designed Dispatchable Reliability Reserve Service (“DRRS”) is a more practical alternative to meet the ERCOT grid’s resource adequacy needs. DRRS can be reasonably designed as a reliability tool to support resource adequacy and meet the reliability standard in a cost-effective manner. As reflected in ERCOT’s Reliability Standard analysis, severe winter storms of significant duration, with minimal solar and wind support, are the greatest ERCOT reliability challenge for the foreseeable future. Given the need to address this challenge, DRRS can be a more targeted and cost-effective tool.

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<sup>1</sup> The probability for Loss of Load is highest during the summer season, when the system frequently experiences scarcity of limited magnitude and duration. The loss of load magnitude and duration for winter storm events are significantly greater than that of summer scarcity events but with much lower probability of occurrence – resulting in a lower contribution to annual LOLE. LOLE does not account for the magnitude and duration of the loss of load event.

PURA §39.159(d) requires that DRRS be designed to meet a “targeted reliability standard” and thus it should be designed and utilized as a reliability product, not an ancillary service used to address short-term operational needs. ERCOT’s initial DRRS proposal in NPRR1235 provides a DRRS design that is compatible with meeting the resource adequacy needs of the market. DRRS should be designed to encourage and support resources that can provide energy for a long duration and that are maintained as reserves and not released into the market until needed to maintain reliability.

DRRS also addresses the practical implementation challenges that have been identified with the PCM. The requirements for a forward market and procurement of performance credits by LSEs have been shown to be extremely difficult and expensive in implementation. DRRS offers a more simplified approach, utilizing the same mechanisms in place today for allocation and settlement of ancillary services. Like other ancillary services, DRRS would be allocated to LSEs on a load ratio share, it could be self-arranged or traded just like current ancillary services, and it would be treated as another ancillary service for purposes of calculating an LSE’s collateral requirements with ERCOT.

In short, if properly designed as a reliability product, HEN suggests that DRRS might achieve the same purposes as the original intent of the PCM, but in a more simplified manner that avoids the implementation challenges with PCM. Under PURA, developing a PCM is optional; addressing reliability is not. Let us focus on solving the problem through a properly designed DRRS so we are ready next time the grid faces extreme stress. Considering that Winter Storm Uri cost over 200 Texan lives and over \$100 billion of economic loss, prompt conclusion of that work is imperative.

## CONCLUSION

HEN appreciates the opportunity to offer these comments and is available to answer questions the Commission may have.

Respectfully submitted,

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**PUBLIC UTILITY COMMISSION  
OF TEXAS**

**COMMENTS BY HUNT ENERGY NETWORK L.L.C**  
**EXECUTIVE SUMMARY**

- While the concept of the PCM is a novel and unique approach to resolving the evolving resource adequacy needs, recent stakeholder meetings have revealed significant challenges that may hinder the success of the product and, ultimately, may become more burdensome to the customers of Texas rather than beneficial.
- Current PCM design would (i) require the creation of a highly controversial, administratively determined baseline derived from an artificial market construct, (ii) obligate LSEs to pay as well as post a significant amount of collateral for ex-post performance credit settlement, resulting in significant adverse impacts on smaller, independent LSEs, and (iii) inadequately incent the development of resources required to address a future winter storm Uri scenario because the PCM awards performance credits based on LOLE, which skews toward incenting summer-available assets.
- Given the practical implementation challenges of PCM, HEN is supportive of a properly-designed DRRS as an effective resource adequacy tool that can be implemented within the existing market, settlement, and credit structures.
- While the current proposed PCM design would allocate most of the Performance Credit (PC) dollars to the summer months based on Loss of Load Expectation, Dispatchable Reliability Reserve Service (DRRS) procurements can directly address the current resource adequacy challenge by signaling the need for long duration, dispatchable resources to meet the magnitude and duration of load shed event related to severe winter storms.
- ERCOT's initial DRRS proposal in NPRR1235 provides a DRRS design that is compatible with meeting the resource adequacy needs of the market. DRRS should be designed to encourage and support resources that can provide energy for a long duration and that are maintained as reserves and not released into the market until needed to maintain reliability.
- DRRS offers a more simplified approach, utilizing the same mechanisms in place today for allocation and settlement of ancillary services. Like other ancillary services, DRRS would be allocated to LSEs on a load ratio share, DRRS could be self-arranged or traded just like current ancillary services, and it would be treated as another ancillary service for purposes of calculating an LSE's collateral requirements with ERCOT.