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PERFORMANCE CREDIT	§	PUBLIC UTILITY COMMISSION
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MECHANISM (PCM)	§	OF TEXAS

**COMMENTS OF THE
SOLAR ENERGY INDUSTRIES ASSOCIATION**

COMES NOW the Solar Energy Industries Association (SEIA)¹ and files these comments in response to the questions filed by Commission Staff in Project No. 55000, *Performance Credit Mechanism (PCM)*, on May 16, 2024.

INTRODUCTION

SEIA is the national trade association of the solar energy and storage industry and is a broad-based voice of the industry in Texas. Through advocacy and education, SEIA and its 1,200 member companies are building a strong solar energy and storage industry to power America. As the voice of the industry, SEIA works to make solar and energy storage mainstream and significant energy sources by expanding markets, removing market barriers, strengthening the industry, and educating the public on the benefits of solar energy and storage. SEIA represents solar companies across a variety of solar energy technologies, including photovoltaic (“PV”), solar water heating, and concentrating solar power (“CSP”). Additionally, SEIA represents diverse solar energy and storage companies providing utility-scale generation and storage, community solar, and customer-sited solar and storage solutions.

SEIA members have successfully grown their businesses in ERCOT in the past due to Texas’s historical approach to free and fair competition under the energy-only market construct. Generation technologies that have a zero fuel cost, such as solar, provide valuable services to the

¹ The comments contained in this filing represent the position of SEIA as an organization, but not necessarily the views of any particular member with respect to any issue.

ERCOT grid, keeping the lights on at a lower overall cost to Texas customers. Moreover, energy storage resources have come to the ERCOT market in response to clear price signals indicating the market need for fast ramping flexible resources. While SEIA does not inherently oppose energy-plus-capacity markets, and its members operate in a variety of markets throughout the world, the proposed Performance Credit Mechanism (PCM) design as it has been articulated to date will be harmful to our members' business interests. Therefore SEIA cannot support adoption of the PCM as it has been described to date. SEIA notes that solar is explicitly excluded from PCM participation, even though its performance on hot summer days has greatly diminished concerns regarding whether ERCOT can meet peak demand on those days. In addition, although battery energy storage resources have demonstrated time and again their value in quickly addressing ERCOT reliability needs, there are open questions in the proposed design regarding limiting revenues to these resources. These issues raise significant concern about treating solar and energy storage resources in a discriminatory manner. In order to support market entry and ongoing operations in any wholesale electricity market, generators must have adequate price signals to support their businesses, whether that is through an energy-only construct or energy-plus-capacity market. As PCM development has continued, E3 has made it clear that the PCM is intended to move ERCOT away from its current energy-only market design, reduce revenues currently available to renewable generation and energy storage technologies, and increase payments to thermal generation resources. Slide 68 of E3's April 17, 2024, workshop presentation makes it clear that PCM revenues are directed away from solar and wind technologies, and, as a result, the proposed market design will reduce market entry for these resources over time.² Stated differently, the PCM is designed explicitly to erect new barriers to development of solar generation in Texas.

² https://www.ercot.com/files/docs/2024/04/11/E3-ERCOT_Stakeholder%20Workshop_April_Presentation_vF.pptx.

In addition, while this slide indicates that energy storage resources in theory should earn marginally more revenues under the PCM model, this assumes an eligibility to earn credits that E3 has been clear it intends to curtail through further adjustments to the PCM model.

SEIA supports removal of market barriers, not creation of new ones. SEIA supports fair competition, not markets that discriminate against specific technologies by having state government choose technology winners and losers. While SEIA is providing the following responses to Staff's questions, we note that nothing in HB 1500 approved last session *requires* adoption of the PCM, and therefore we urge the Commission to decline to adopt the PCM as it has been described to date. With Texas facing unprecedented load growth, the Commission and ERCOT cannot afford to adopt a market design that creates new barriers to entry for generation resources such as solar and storage that provide a more reliable, affordable grid for Texas consumers.

COMMENTS ON QUESTIONS POSED BY THE COMMISSION STAFF

- 1. Answer the following questions on PCM Design Parameters #1-2, which are related to the PCM Seasons. a. What should the value be for the number of seasons? b. Which months should be included in each of those seasons? c. What specific sensitivities around the PCM seasons should be included in the analysis?**

Winter and summer peaks are known high risk periods, but ERCOT is also subject to reliability risk in the shoulder months, when demand can be high and generators may not be available due to planned outages to perform maintenance and forced outages. Therefore, if implemented, the PCM should include all seasons and be applied during all 12 months of the year.

2. **Answer the following questions on PCM Design Parameters #3-4, which are related to the Performance Credit (PC) hours. a. What should the number of PC hours per season be? b. How wide of a range on the number of PC hours should be considered for the sensitivity analysis (i.e., the minimum/maximum number of hours per season)? c. Should all EEA hours automatically be included as PC hours, even if the number of EEA hours exceeds the chosen number of PC hours in a given season?**

No response at this time.

3. **The base case for PCM Design Parameter #5, which relates to the metric used to determine PC generation by resource, is set to 'Sum of available generating capacity by resource.' How should 'availability' be defined for the purpose of this design parameter?**

Utilities Code §39.1594(a)(5) provides in relevant part, “an electric generating unit can receive a credit only for being available to perform in real time during the tightest intervals of low supply and high demand on the grid....” In a November 21, 2023, memorandum in this proceeding, Commission Staff described this requirement as “stipulat[ing] that an electric generation unit can receive credit only for being able to perform in real time during the tightest intervals of low supply and highest demand on the grid.” In addition, Commission Staff noted that a related requirement to being “available” is provided by Utility Code §39.1594(a)(4) which provides that “a generator cannot receive credits that exceed the amount of generation bid into the forward market by that generator”. In order to coordinate both requirements, the hour(s) the generation resource offers to be available in the DAM must be the same hour(s) for which the resources seek to be eligible to earn PC(s). Thus, at a minimum, “availability” for purposes of earning a PC requires both an offer in the DAM and readiness to perform in real time. Pursuant to this statutory guardrail, if a resource meets the definition of “available”, then it should be eligible to earn a PC just like any other eligible dispatchable generation resource.

4. **Under the base case for PCM Design Parameter #6, the PCs that duration-limited generators could earn would be capped during consecutive PC hours by the duration of the generation facility (e.g., a four-hour energy storage resource would only be able to receive PCs for up to four consecutive hours). a. Should the number of PCs these**

resources can receive during consecutive PC hours be capped by the duration of the facility? Why or why not?

SEIA opposes putting caps on an energy storage resource's ability to earn credits as proposed under Design Parameter #6. First, it is unclear whether the Commission will require a resource "perform" in real time (i.e., provide energy to the grid in real-time) as a condition to earning a PC, or if mere "availability" is required. If the delivery of energy in real time is required, then the availability for a resource to earn PCs will be limited by the resource's ability to deliver energy in real time and this may not depend on whether the resource is duration limited. For example, an energy storage resource with a nameplate 4-hour duration that delivers energy to the grid in real time should be eligible to earn PCs for all four hours, whereas a gas-fired generation unit that in theory has no duration limit but its fuel is curtailed after two hours would be eligible to earn only two PCs. In this approach, the duration of the resource does not matter – only the resource's actual performance.

If, however, the Commission determines that mere availability is all that is required to be eligible to earn a PC, then the nameplate duration of the resource also is not relevant. In fact, a one-hour duration energy storage resource can be "available" 24 hours a day. If the Commission determines that the duration of a resource somehow limits its "availability," then the Commission will, in effect, be imposing a firm fuel obligation on duration limited resources and such an additional qualification must be imposed on every generation resource, regardless of fuel type. In other words, a gas-fired generation resource must have a firm fuel supply contracted or available on-site for every consecutive hour it seeks to be deemed "available" just as an energy storage resource must have the duration to qualify for multiple consecutive hours in order to be "available". Conversely, any limit to the firm fuel the gas-fired resource maintains will limit the consecutive hours in which it can earn PCs.

SEIA is very concerned about what appears on its face to be discrimination against energy storage resources in E3's proposed design, above and beyond the discrimination against renewable resources as discussed in our introductory remarks to these comments. In its April 17, 2024, PCM Workshop Presentation, E3 asserts that storage might "game the system."³ SEIA disagrees with making pejorative assumptions about how market participants with storage may operate in the market, and adamantly opposes market constructs that are explicitly designed to erect new market barriers to SEIA's member companies.

SEIA further notes that if the PCM is implemented, additional clarity is needed to ensure that heterogeneous aggregations of distributed energy resources (ADERS), which may be duration-limited, can also compete to earn PCs. The ADER pilot is currently underway and ADERs are successfully being dispatched in ERCOT markets to provide energy, non-spin and ERCOT Contingency Reserve Service (ECRS). ADERs will continue to develop as additional resources on the ERCOT grid, and therefore it is critical that the Commission ensure that market rules afford these resources a fair opportunity to compete in any and all markets, including the PCM, if implemented.

5. PCM Design Parameters #11 (ERCOT-wide PC Requirement Determination Framework), #12 (Net-CONE determination), and #14 (Demand Curve – Seasonal Value Allocation) all currently have optionality where these parameters can be determined on an ex-ante or ex-post basis. A. For each of these design parameters, should the base case be set to ex-ante or ex-post? Why? B. If an ex-ante determination is preferred for any of these parameters, are there alternatives that do not require forward-looking load forecasts made by ERCOT?

No response at this time.

³ See the "Speaker Notes" on slide 38: "Want to make sure storage can't game the system by withholding charge and being 'available' for all PC hours if those hours exceed its duration." https://www.ercot.com/files/docs/2024/04/11/E3-ERCOT_Stakeholder%20Workshop_April_Presentation_vF.pptx.

- 6. Other than PCM Design Parameters #19-21, which are directly tied to the Annual Net Cost Cap Compliance, identify any other PCM design parameters that are impacted by the statutory cost cap.**

The Commission has expressed the intent to apply a strict \$1 billion annual net cost cap. This net cost cap should include any and all costs that are associated with PCM, whether those are directly imposed on generators or load serving entities (LSEs), including but not limited to costs for market participant collateral related to the PCM, or indirect costs such as administrative and implementation costs that also will ultimately be recovered from retail customers.

- 7. PCM Design Parameter #20 relates to the framework utilized to comply with the net cost cap. The current base would compare PCM to a modeled energy-only system that is at the Market Equilibrium Reserve Margin (MERM) without PCM. a. Is this the appropriate counterfactual to compare the PCM against to calculate the net cost of the PCM? If not, provide a recommendation on the best system comparison to calculate the net cost of the PCM in a given year to ensure compliance with the net cost cap of \$1B.**

Yes, the MERM associated with an energy-only market is the appropriate counterfactual comparison, as it represents the economically optimal reserve margin.

- 8. PCM Design Parameter #31 relates to the timing of the seasonal PC market settlement. The current base case settles the PC market for all seasons simultaneously at the end of the year. Is the current base case appropriate, or should the PC market be settled at the end of the season for each season? Why?**

No response at this time.

- 9. Regarding the collateral requirements and timelines (PCM Design Parameters #32-36), what modifications can be made to the other design parameters to effectively reduce the collateral requirement on the Load Serving Entities (LSE)?**

No response at this time.

- 10. Provide any additional feedback on the PCM design parameters that the Commission needs to consider.**

No response at this time.

CONCLUSION

SEIA appreciates the opportunity to provide input in this proceeding. We urge the Commission not to take actions that will discriminate against specific technologies, such as energy storage and renewable energy technologies. For these reasons, we respectfully request that the Commission decline to adopt the PCM. If the PCM is adopted, the Commission should take additional steps to remove discriminatory provisions targeted toward specific technologies.

Respectfully submitted,



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MECHANISM (PCM)**

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**PUBLIC UTILITY COMMISSION

OF TEXAS**

COMMENTS OF THE SOLAR ENERGY INDUSTRIES ASSOCIATION

EXECUTIVE SUMMARY

- SEIA does not support adoption of the PCM as it has been described to date since solar generation is explicitly excluded from PCM participation despite the reliability benefits it brings to the market and because of open questions regarding the potential for PCM to limit revenues to these resources. The PCM as proposed to date is designed to explicitly erect new barriers to the development of solar generation in Texas.
- The PCM should include all seasons and be applied during all 12 months of the year since ERCOT is subject to reliability risk in all months of the year.
- In order for a generation resource to be “available” under the PCM, the resource must make an offer in the DAM for the same hour(s) for which the resource seeks to be eligible to earn PC(s).
- The Commission should reject proposals to impose a cap on an energy storage resource’s ability to earn PCs. If “availability” is all that is required to earn a PC, then duration of the resource is irrelevant. If delivery of energy in real time (in addition to an offer in the DAM), is required to be “available,” then duration is not relevant, but performance in delivering energy during the hour(s) in which PC(s) are awarded is the relevant determinant.
- The Commission should design the PCM to allow full participation of aggregated distributed energy resources (ADERs).
- The net cost cap for the PCM should consider all costs that are associated with implementation of the PCM, including but not limited to costs for market participant collateral related to the PCM and indirect costs such as administrative and implementation costs.
- To study the next cost cap, the PCM should be compared to a modeled energy-only system that is at the Market Equilibrium Reserve Margin without the PCM.