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PERFORMANCE CREDIT MECHANISM	§	**PUBLIC UTILITY COMMISSION**
	§	
	§	**OF TEXAS**

TEXAS OIL & GAS ASSOCIATION COMMENTS ON THE PERFORMANCE CREDIT MECHANISM

The Texas Oil & Gas Association (TXOGA) appreciates the opportunity to file comments in Project No. 55000 regarding the Texas Energy Fund In-ERCOT Generation Loan Program. 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 approximately 90 percent of Texas' crude oil and natural gas, operates nearly 90 percent of the state's refining capacity, and is responsible for the vast majority of the state's pipelines. In fiscal year 2022, the Texas oil and natural gas industry supported 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.

TXOGA believes that the PCM is at best superfluous and additive to ERCOT's systemwide costs that have escalated in recent years. However, to the extent that the PUC follows it legislative mandate to scope and implements the PCM, TXOGA's responses follow in response to the Staff's request for input – and to help design a system that is as efficient as possible, even if it is not necessary.

Response to Questions

1a) What should the value be for the number of seasons?

TXOGA recommends a moderate approach with four seasons, which should be sufficient to balance the need for granularity in reliability assessments with the complexity of the market design. Employing only two seasons would risk misalignment between need determinations and actual results, due to the broad categorization of risk profiles. At the other extreme, if each month is considered a season, this would raise the administrative burden and complexity as well as variability in PC generation and prices, as load and resource availability will have higher variability during shorter timeframes. A four-season approach, which is the current default, balances capturing detailed reliability risk profiles and maintaining manageable administrative complexity.

1b) Which months should be included in each of those seasons?

Season definitions should align as closely as possible with periods of distinct demand and supply characteristics, weather patterns, and reliability risks. The current default definitions are Winter (11/16-3/15), Spring (3/16-5/15), Summer (5/16-9/15), and Fall (9/16-11/15).

As a recommended basis for changes, the PUC should: 1) ensure high-demand months are grouped to reflect reliability risks; 2) group periods of extreme weather that drive demand spikes; 3) accurately reflect periods when certain types of generation are more or less available; 4) focus on periods of highest risk; and, 5) ensure season lengths are balanced to avoid overly short or overly long seasons that might distort market behavior. TXOGA recommends adjustments to the default definitions as follows:

Winter (Adjust to 11/16-3/15) – Captures high heating demand periods, including late fall and early spring cold spells.

Spring (Adjust to 3/16-5/15) – Brief transitional period with moderate demand and minimal reliability events.

Summer (Adjust to 5-16-9/15) – Encompasses the full span of high temperatures and peak cooling demand.

Fall (Adjust to 9/16-11-15) – Brief transitional period with relatively stable demand and lower reliability risks.

1c) What specific sensitivities around the PCM seasons should be included in the analysis?

For sensitivities around PCM seasons, several factors and parameters should be considered to ensure that the definitions optimize grid reliability and operational efficiency, including demand, weather, generation, reliability, market, and policy/regulatory sensitivities as follows:

- **Demand sensitivities**, including peak vs. average demand and growth trends.
- **Weather sensitivities**, including temperature extremes and seasonal weather patterns.
- **Generation sensitivities**, including resource availability and intermittent resource performance.
- **Reliability risk sensitivities**, including the frequency of reliability events as well as their severity and impact (economic and operational).
- **Market sensitivities**, including price volatility and market participant behavior.
- **Policy and regulatory sensitivities**, including regulatory requirements that could influence the definition of seasons, such as mandates for resource adequacy or emissions targets, and legislative changes that might impact seasonal demand and supply patterns.

2a. What should the number of PC hours per season be?

Determining the appropriate number of Performance Credit (PC) hours per season influences whether the PCM framework incentivizes resource availability during periods of high reliability risk. The number of PC hours should balance the need to cover critical high-demand periods while avoiding overcompensation that could distort market signals. Based on considering historical demand, reliability, markets, and seasonal variability, TXOGA's recommendations follow:

Winter (November - March): recommend 20 hours per season. Winter typically has fewer but more prolonged periods of high demand due to heating needs and potential cold snaps. Setting PC hours at 20 ensures coverage of critical periods without overextending into less critical times.

Spring (April): recommend 10 hours per season. April generally has more moderate demand. A lower number of PC hours reflects the reduced reliability risk while still incentivizing availability during occasional high-demand periods.

Summer (May - September): recommend 40 hours per season. Summer has the highest and most consistent demand due to cooling needs. Setting PC hours at 40 ensures sufficient coverage of peak periods, which are frequent and prolonged during this season.

Fall (October): recommend 10 hours per season, similar to spring, which typically experiences moderate demand. Setting PC hours at 10 ensures critical periods are covered without overcompensating during lower-demand periods.

2b. 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)?

As sensitivities for the number of Performance Credit (PC) hours per season, TXOGA recommends the following:

Season	Minimum PC hours	Maximum PC hours
Winter (Nov.-Mar.)	10 hours per season	30 hours per season
Spring (Apr.)	5 hours per season	15 hours per season
Summer (May-Sep.)	30 hours per season	60 hours per season
Fall (Oct.)	5 hours per season	15 hours per season

Winter (November - March): minimum 10 hours per season and maximum 30 hours per season. This range would ensure periods of high demand due to heating needs are covered in the lowest scenario

and that extended cold weather and higher demand are covered in the highest scenario.

Spring (April): minimum 5 hours per season and maximum 15 hours per season. Reflects generally lower demand and fewer reliability events, focusing only on occasional high-demand periods, at the minimum. And allows for a higher number of PC hours in case of unseasonably high demand or specific events that increase reliability risk at the maximum.

Summer (May - September): minimum 30 hours per season and maximum 60 hours per season. Ensures coverage of frequent high-demand periods due to cooling needs in the lower scenario – and captures periods of sustained high demand during heatwaves and peak summer months.

Fall (October): minimum 5 hours per season and maximum 15 hours per season. Reflects typically moderate demand and fewer reliability events on the lowest end, and allows for higher coverage in case of unseasonably high demand or specific reliability events.

2c. 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?

Including all Energy Emergency Alert (EEA) hours as PC hours would be prudent to ensure grid reliability during critical periods. By setting a baseline number of PC hours, which should include EEA hours on top of this baseline, the PCM framework can effectively balance the need for strong incentives with the potential for market volatility. EEA hours are part of the total number of allowable PC hours, however, the maximum number of PC hours, which includes EEA hours should not be exceeded. This policy would ensure resources are incentivized to be available during emergencies, directly addressing the periods of highest reliability risk.

1. **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?**

We do not have a comment at this time but would advocate that availability strictly adhere to the ability of a unit to support reliability during PCM designated periods.

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). 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?

TXOGA recommends capping the number of PCs duration-limited resources can receive during consecutive PC hours by the duration of the facility. This encourages investment in longer-duration resources while ensuring that the awarded PCs reflect the true contribution of these resources to maintaining grid stability. The state of charge of a battery should also be a consideration.

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.

TXOGA does not have a comment at this time.

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.

Several other design parameters could be indirectly impacted by the statutory cost cap:

Design parameter	Impact on cost cap compliance
PCM seasons (#1)	Influences cost allocation and management of high-cost periods.
Number of PC hours per season (#3)	Directly affects the total number of PCs awarded and overall cost.
Metric used to determine PC generation (#5)	Ensures cost efficiency and appropriate performance incentives.
Forward market participation requirements (#24)	Influences liquidity and cost management in the forward market.
Non-performance penalties for PCs (#25 & #26)	Ensures compliance and cost control through penalties.
Forward market settlements (#30)	Timing impacts cash flow and cost management.
LSE PC market collateral requirements (#32)	Ensures financial stability and mitigates risk, aiding cost management.
Generator PC market collateral requirements (#34)	Ensures cost control and market stability through adequate collateral.

These design parameters could have implications for overall cost management within the PCM framework.

7a. 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. 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 $1 billion.

The Market Equilibrium Reserve Margin (MERM) theoretically represents the reserve margin at which the market is in equilibrium without additional reliability incentives like PCM. While this could provide one baseline for comparison, it is limited by not being able to capture the complexities and variabilities of real market conditions as well as the fact that it's static and not reflective of dynamic changes in market behavior, technological advancements, or policy shifts. TXOGA also has concerns regarding the accuracy

of the model (SERVM) currently being used to establish the MERM in light of recent significant changes to the ERCOT market.

Alternatively, ERCOT could compare the PCM with an energy-only market system based on historical average performance over a set period (e.g., the past 5 to 10 years), accounting for actual operational data, costs, and market behaviors over the period. This approach leverages empirical data, reflecting market conditions and behaviors, ensuring a fair and realistic comparison that supports compliance with the statutory cost cap.

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?

Settling the PC market at the end of the year would be an effective approach.

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)?

TXOGA does not have a comment at this time.

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

Many stakeholders including TXOGA believe that the existing energy-only system plus ancillary services (including the ECRS implemented in 2023 and the DRRS to be implemented in 2026) provides sufficient revenues to attract investment in new dispatchable generation and enhance reliability, given time, as seen in recent market performance.

To ensure transparency, address consumer and stakeholder concerns, and demonstrate the necessity and effectiveness of PCM in achieving a reliable and resilient grid, ERCOT should reconcile these views by actively engaging with stakeholders, conducting comprehensive market analysis, and clearly articulating the need for any administratively defined capacity market such as the PCM. Additionally, there should be a yearly review of the PCM that establishes reasonable benchmarks that need to be met in order to determine if this program is bringing the reliability at an affordable rate, that it seeks to for the ERCOT market.

TXOGA offers the foregoing recommendations to enhance the effectiveness, fairness, and adaptability of

the PCM, but still fundamentally disagrees with the need for the program.

TXOGA appreciates the opportunity to submit these comments and looks forward to continuing the conversation on this important matter.

Respectfully submitted,

Shana Joyce
Director Government & Regulatory Affairs
Texas Oil & Gas Association
304 W. 13th Street
Austin, TX 78701
Phone: 210-275-3458
sjoyce@txoga.org