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Public Utility Commission of Texas

Memorandum

TO: Chairman Thomas Gleeson
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Kathleen Jackson

FROM: Werner Roth, Market Analysis
Chris Brown PhD, Market Analysis

DATE: March 14, 2024

RE: March 21, 2024 Open Meeting – Item No. 23
Project No. 55000 – Performance Credit Mechanism (PCM)

On February 29, 2024, ERCOT made a filing in Project No. 55000 that included:

1. PCM Draft Design Parameters Options Memorandum (Options Memo) that presented a proposed study approach to design the PCM, identified 37 PCM design parameter decisions, and proposed an evaluation methodology to select the final design parameters.
2. An updated PCM Market Initiative Overview Report that laid out, in more detail, the proposed next steps.

During the discussion on this Project at its March 7, 2024 open meeting, the Commission directed Staff to file their initial reaction to the contents of ERCOT's filing ahead of the Commission's March 21, 2024 open meeting.

1. Overview of Design Parameters Options Memo

Prior to filing their memorandum, ERCOT discussed the 37 PCM design parameters included in the memorandum with Staff. Staff provided input during these discussions, and we believe that the 37 PCM design parameters sufficiently capture the set of decision points that will need to be made prior to the approval of the final PCM strawman. We identify any outstanding areas of concern and recommendations in the sections below. We also provide Attachment A to this memo which includes a table with all the design parameters and Staff's opinions, if any.

Annual Net Cost Cap Compliance (items 19, 20 and 21)

Consistent with the Commission discussion during the March 7, 2024 open meeting, Staff agrees that statute requires an absolute annual net cost cap of \$1billion. As such, the default for PCM Design Parameter #19 should be set at "Absolute annual" and should not offer any optionality in the modeling. Staff also clarifies that while item 19 defines the annual cap *limit*, item 20 describes *how* the calculation will be made to ensure the \$1billion limit is not exceeded.

Public Utility Commission of Texas

Memorandum

Prioritize Certain PCM Design Elements

Staff strongly recommends that priority should be given to deciding all PCM design parameters that affect the modeling. This would include PCM Design Parameters #1-15 and #19-21, covering categories related to the PCM seasons, the PC hours, the PC generation, resource eligibility for PCs, the PC demand curve parameters, and the annual net cost cap compliance.

In Project No. 54584 Reliability Standard for the ERCOT Market, Staff had previously requested that ERCOT provide analysis on the level of LOLE that could be achieved via the PCM with the absolute \$1billion annual net cost cap established in PURA § 39.1594(a)(1).¹ In its January 11, 2024 update,² ERCOT responded to Staff's request, stating that certain PCM design determinations would need to be made before this analysis could be run. Understanding the equilibrium level of reliability we will be able to achieve with the PCM, absent other changes to the market design, is an important data point to have as the Commission continues its work on establishing a reliability standard for ERCOT.

Non-Performance Penalties for PCs (items 25 and 26)

Staff recommends that additional attention be given to the non-performance penalties for PCs. While Staff does not have a specific recommendation at this time, we urge thorough review of these penalties so that they are sufficiently high to ensure that generators are neither advantaged from clearing the forward market and failing to meet their obligation nor incentivized to offer in PCs in excess of what they are reasonably expected to be able to provide. Staff also notes that, consistent with statute, these penalties must result in a net benefit to load.

Market Power Mitigation (item 37)

Currently, PCM Design Parameter #37, Additional Rules to Mitigate Market Power Under PCM, has no defined "Default" value. Instead, the options currently state "Different combinations of market power mitigation best practices. The PUCT/IMM will help in developing and recommending options." To facilitate discussion on the mitigation measures, Staff recommends that the Commission direct the IMM to file in Project No. 55000 their recommended set of "default" mitigation measures and guardrails that should be included.

2. Updated PCM Market Initiative Overview Report

Based on the discussion at the March 7, 2024 open meeting, Staff recommends that the Commission adopt the following timeline focusing on the 37 PCM Design parameters, the default values, and optionality for the default values as the first major milestone to be completed.

¹Project No. 54584, AIS Item No. 50, Staff Memo, and Attachment 1 (October 26, 2023)

²Project No. 54584, AIS Item No. 53, ERCOT Reliability Standard Update (January 11, 2024).

Public Utility Commission of Texas

Memorandum

| Date | Event |
|-------------|---|
| 3/14 | Staff files memo providing recommendations on the 37 PCM Design Parameters, default values, optionality, and next steps |
| 3/21 OM | Commission discussion of Staff's memo |
| 4/4 Memo | Staff files memo summarizing Commission feedback from 3/21 OM |
| 4/11 OM | Commission provides feedback on Staff's Summary Memo, additional feedback on PCM Design Parameters, default values, optionality, and next steps |
| April | ERCOT and E3 hold first workshop with stakeholders to discuss PCM parameters with Commission feedback |
| April | ERCOT files PCM Design Parameters, default values, and optionality at Commission, incorporating stakeholder feedback |
| May | Commission requests stakeholder comments in Project No. 55000 |
| May/June | Commission evaluates next steps based on the stakeholder comments |

Action Items:

Staff requests Commission provide feedback on the recommendations and the timelines above at the March 21, 2024 open meeting and adopt more specific timelines at the April 11, 2024 open meeting.

In addition, Staff requests confirmation that:

- Design parameters 1-15 and 19-21 should be prioritized, due to their effect on modeling.
- Staff should conduct additional review and develop a recommendation for non-performance penalties (parameters 25 and 26) and associated generator PC market collateral requirements (parameter 34).
- Staff believes that forward market is optional for LSEs, mandatory for generators (parameter 28).
- Staff supports participation of virtual parties to increase liquidity in PC market (parameter 29).
- The IMM should file a recommended set of default mitigation measures and guardrails (Item 37) before April 11, 2024 open meeting in Project No. 55000.

Project 55000-Attachment A-PCM Design Parameters and Staff Notes

| Category | # | Design Parameter | Staff Notes |
|--------------------------------|----|--|---|
| PCM Seasons | 1 | Number of Seasons | Modeling element – prioritize |
| | 2 | Months in Each Season | Modeling element – prioritize |
| PC Hours | 3 | Number of PC Hours per Season | Modeling element – prioritize |
| | 4 | Metric Used to Determine PC Hours | Modeling element – prioritize |
| PC Generation | 5 | Metric Used to Determine PC Generation by Resource | Modeling element – prioritize |
| | 6 | PC Generation Duration-Based Cap (Duration-Limited Resources) | Modeling element – prioritize |
| Resource Eligibility for PCs | 7 | Renewable Generator PC Eligibility | Set to ‘no’ – no optionality in modeling |
| | 8 | Run-of-River Hydroelectric Generator PC Eligibility | Set to ‘no’ – no optionality in modeling |
| | 9 | Duration-Limited Generation Eligibility – Minimum Duration | Modeling element – prioritize |
| | 10 | Dispatchable Distributed Energy Resources (DERs) PC Eligibility (ERCOT-Registered) | Modeling element – prioritize |
| PC Demand | 11 | ERCOT-wide PC Requirement Determination Framework | Modeling element – prioritize |
| | 12 | Net-CONE Determination Framework | Modeling element – prioritize |
| | 13 | Demand Curve – Max Annualized PC Price | Modeling element – prioritize |
| | 14 | Demand Curve – Seasonal Value Allocation | Modeling element – prioritize |
| | 15 | Demand Curve – Shape | Modeling element – prioritize |
| | 16 | Allocation of System PC Requirement across LSEs | No present concerns |
| Performance Requirements | 17 | Start-Up Performance Requirement | No present concerns |
| | 18 | High Sustained Limit (“HSL”) Performance Requirement | No present concerns |
| Annual Net Cost Cap Compliance | 19 | Absolute Annual vs. Average Annual Net Cost Cap | Set to ‘absolute annual’ – no optionality in modeling |
| | 20 | Framework Utilized to Comply with Net Cost Cap | Modeling element – prioritize |
| | 21 | Distribution of Net Cost Cap across Seasons | Modeling element – prioritize |

PCM Design Parameters and Staff Notes

| Category | # | Design Parameter | Staff Notes |
|---|----|---|--|
| Framework & Timeline of Forward PC Market | 22 | Cadence of Forward Market | No present concerns |
| | 23 | Prompt Definition of Forward Market | Options provide too large of a range |
| PC Hours | 24 | Forward Market Participation Requirements & Incentives for Generators | Set to 'PCs awarded to generators are capped by forward market offer' – no optionality in modeling |
| | 25 | Non-Performance Penalties for PCs Cleared in Forward Market | Additional consideration recommended |
| PC Generation | 26 | Non-Performance Penalties for PCs Offered but not Cleared in Forward Market | Additional consideration recommended |
| | 27 | Non-Performance Penalty Compliance Framework | Additional consideration of provided options recommended |
| Resource Eligibility for PCs Framework & Timeline of PC Market | 28 | Forward Market Participation Requirements for LSEs | Staff thinks forward market is optional for LSEs, mandatory for Generators |
| | 29 | Eligibility of Virtual Parties to Participate in Forward Market | Staff supports participation of virtual parties to increase liquidity in PC market |
| | 30 | Framework & Timing of Forward Market Settlements | No present concerns |
| | 31 | Timing of Seasonal PC Market Settlement | No present concerns |
| PC Demand Market Power Mitigation | 32 | LSE PC Market Collateral Requirement | No present concerns |
| | 33 | LSE PC Market Collateral Timeline | No present concerns |
| | 34 | Generator PC Market Collateral Requirement | May require additional consideration based on decisions regarding items 24 and 25 |
| | 35 | Generator PC Market Collateral Timeline | No present concerns |
| | 36 | PC Market Collateral Recalculation & Update Cadence | No present concerns |
| | 37 | Additional Rules to Mitigate Market Power under PCM | Direct IMM to provide default mitigation measures |