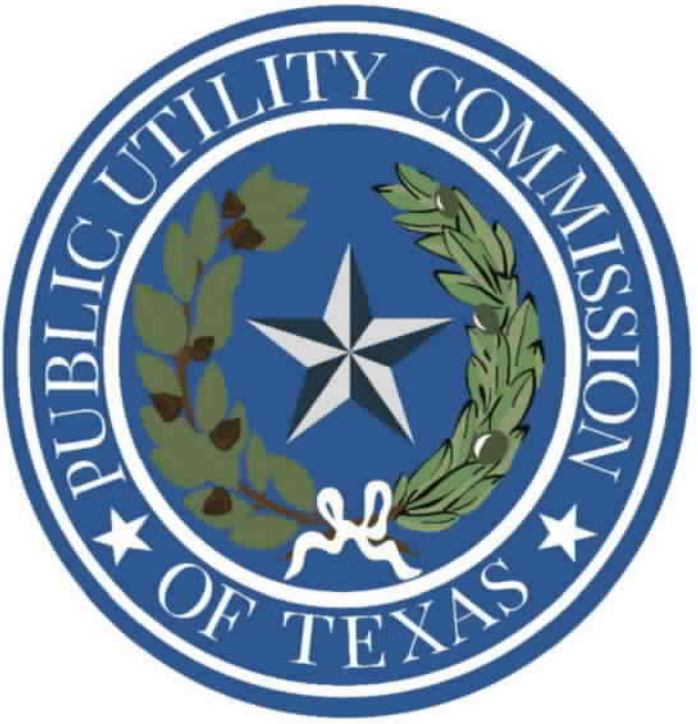

Filing Receipt

Filing Date - 2024-10-21 01:53:12 PM

Control Number - 55845

Item Number - 22

PROJECT NO. 55845

REVIEW OF ANCILLARY SERVICES IN THE ERCOT MARKET	**§** **§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TEXAS PUBLIC POWER ASSOCIATION'S RESPONSE TO QUESTIONS FOR COMMENT

The Texas Public Power Association (TPPA) appreciates the opportunity to respond to the questions for comment issued by the Public Utility Commission of Texas (Commission) relating to the review of ancillary services (AS) in the Electric Reliability Council of Texas (ERCOT) market. These comments are submitted on behalf of TPPA and do not necessarily reflect the opinions of any individual TPPA member.

Formed in 1978, TPPA is the statewide association for the 72 municipally owned utilities (MOUs) in Texas. TPPA membership also includes several electric cooperatives and joint action agencies, as well as the Lower Colorado River Authority. TPPA members serve urban, suburban, and rural Texas and vary in size from large, vertically-integrated utilities to relatively small distribution-only systems. We are proud to serve approximately 5.1 million Texans across the state. Most of our members operate within the Electric Reliability Council of Texas (ERCOT) region, though several are located within either the Southwest Power Pool (SPP) or Midcontinent Independent System Operator (MISO) region. MOUs offer a long track record of stability, and we serve an essential role in providing secure and reliable power to the wholesale electricity markets in these regions, including ERCOT. Many of our member systems have been providing stable and reliable electric service to communities in Texas for over 100 years, and collectively, our members provide more than 13,800 MW of generation and maintain more than 8,500 miles of high-voltage transmission assets.

On October 7, 2024, the Commission issued questions for comment, seeking responses by October 21, 2024. These responses are timely filed.

I. General Comments

TPPA appreciates the work the Commission, Commission Staff, ERCOT, and the Independent Market Monitor (IMM) have put into this project, including workshops and discussions. TPPA intends to be present at the upcoming workshop to discuss these comments.

Revised Blueprint. TPPA recommends the Commission holistically consider the market and market design changes it is undergoing in order to determine whether the existing AS products and procurement methodologies sufficiently meet the ERCOT grid's reliability needs. Recently, the Commission approved 16 Texas Administrative Code (TAC) § 25.508, which developed a reliability standard for the ERCOT region.[1] In the near future, the Commission will oversee the implementation of Real-Time Co-optimization (RTC), which will overhaul how AS are procured and deployed, as well as a new AS – the Dispatchable Reliability Reserve Service (DRRS). As part of our comments in the reliability standard project, TPPA recommended the Commission publish a revised blueprint to provide clarity on forthcoming market design changes,[2] as it did in December 2021 for phase I and II market design changes.[3] TPPA continues to encourage the publication of such a revised blueprint. TPPA's recommendation for a revised blueprint is not specific to this project, nor was it specific to the reliability standard project.[4] TPPA recommends a revised blueprint be published in the Commission project that Commission Staff feels is most relevant and appropriate, as it would provide clarity to stakeholders on the market's overall direction.

Policy Issues. TPPA believes the criteria used to determine the AS procurement quantities is a policy-level decision that should be determined at the Commission. After Winter Storm Uri, ERCOT adopted a conservative operating posture, maintaining higher operating reserves and more aggressive use of the Reliability Unit Commitment (RUC) process. This decision was made without public direction from the Commission and was executed outside the ERCOT stakeholder process. As the Commission considers the reliability of the ERCOT market and future market design changes, the Commission should ensure

[1] *Reliability Standard for the ERCOT Region*, Project No. 54584, Order Adopting New §25.508 (Sept. 9, 2024).
[2] Project No. 54584, Texas Public Power Association's Response to Proposal for Publication (July 15, 2024).
[3] *Review of Wholesale Electric Market Design*, Project No. 52373, Memo – Regarding Written Comment for Phase II Market Design (Dec. 6, 2021).
[4] *Supra* note 1 at 43. ("The commission declines to provide an updated blueprint as recommended by TPPA, because this request is beyond the scope of this rulemaking project.")

that any changes to fundamental market elements, including the procurement of AS, are made transparently and with full public input.

Purpose of Ancillary Services. Prior to ERCOT adopting a conservative operating posture, AS had been procured to balance the grid and maintain frequency in the event of a forecast error or an unplanned outage. This approach was focused on strict operational reliability. ERCOT's conservative operating posture, on the other hand, was designed to minimize or even eliminate the possibility of ERCOT entering into a Watch or any of the Energy Emergency Alert (EEA) levels and improve the public's confidence in the reliability of the ERCOT gird.

In addition to AS providing reliability benefits, it can also provide significant revenues to generation resources, helping to keep existing units economic while also helping to incent future potential investments in new generation. TPPA is aware that some market participants are currently advocating for AS to serve as a more direct resource adequacy mechanism (for instance, as an alternative to the Performance Credits Mechanism or PCM). To date, the Commission has not indicated whether it would support this approach.

TPPA believes greater Commission guidance is needed on whether AS ought to directly support resource adequacy, and if the Commission chooses to proceed down this path, TPPA strongly encourages the Commission to conduct more analysis on the costs and benefits of utilizing AS products to directly address resource adequacy concerns. Regardless of which approach the Commission chooses to move forward with, the Commission should strive to improve the investment environment by providing clear direction on the purpose of AS in the ERCOT market.

II. Responses to Questions

1. Which of the following is the proper criterion for ERCOT to use to determine AS procurement quantities: avoiding Watches, avoiding Energy Emergency Alerts, or avoiding load shed? Please explain your choice.

A reliable grid is one that seeks to avoid outages. TPPA thus recommends that ERCOT procure sufficient AS to avoid load shed. Watches and early stages of Energy Emergency Alerts (EEAs) are not outages and have historically served as powerful investment signals; therefore, AS procurement should not be targeted towards avoiding those conditions at any cost. However, TPPA's comments should not

be read to indicate that ERCOT should wait until the last EEA level (EEA3) to deploy all existing AS capacity. ERCOT should utilize its AS portfolio aggressively to minimize overall system risk. The purpose of having different AS is to create a portfolio of capacity available to respond to different risks at different triggers for different durations. ERCOT should assemble a reasonably cost-effective portfolio of AS to provide protection against identified system risks. TPPA's comments below focus entirely on procurement levels, not deployment strategy.

Multiple sections of the Report provide AS purposes. These include:

1. Meet North American Electric Reliability Corporation (NERC) supply/demand balancing standards.

2. Reduce operational risks associated with system variability and uncertainty such as unscheduled generator failures and errors in forecasting net load (load minus renewable resources).

Procuring AS quantities exceeding those needed to meet the above purposes would push substantial costs onto consumers for no clear operational reliability benefit. Further, over-procurement of AS to avoid Watches or the early stages of EEAs can cause artificially high energy prices that are ultimately paid by consumers.

TPPA believes ERCOT's conservative operational posture has not ensured additional reliability over time because it masks market signals while increasing prices and creating regulatory uncertainty. If the Commission intends for conservative operations to continue (because it believes conservative operations are addressing resource adequacy needs), then TPPA would recommend a new project be opened to study this change in direction and to ensure the market is adequately incented to self-commit, that price signals correctly correlate with the times when the greatest level of risk is present, and that ERCOT's AS deployment triggers are appropriate. Further, TPPA would recommend avoiding Watches to be the appropriate criteria for determining AS procurement quantities, if conservative operations persists. If the Commission seeks to use AS to more directly incent investment in new resources, then, as noted above, additional study is needed to ensure signals are implemented deliberately and adequately to achieve this end.

2. What are the possible positive and negative impacts of calculating the AS amounts dynamically? Besides implementation costs, are there any important implementation considerations for this suggestion not mentioned in the report?

As an initial matter, TPPA would support more information and discussion as to whether dynamic procurement of AS should be a part of the RTC implementation, rather than a separate project taken up before, concurrently, or afterward.

From a purely economic perspective, a dynamic calculation of the AS amounts would provide the most market efficiency. As ERCOT approaches the operating hour, forecasts improve and the operational situation becomes more definitive, which leads to the most accurate information on which to base AS procurement amounts.

That said, for many MOUs, a dynamic calculation will add volatility and uncertainty to assigned AS obligations. The Commission would need to carefully balance these concerns in moving forward with dynamic procurement.

3. What are the possible positive and negative impacts of calculating the minimum AS amounts using a probabilistic model instead of the statistical approach currently used? Besides implementation costs, are there any important implementation considerations for this suggestion not mentioned in the report?

All things being equal, TPPA would prefer the probabilistic approach. TPPA believes that a probabilistic model in the current market dynamic with weather uncertainty and load forecasting errors would likely lead to more efficient AS procurement outcomes.

Regardless of which approach is used, TPPA requests more transparency be provided into the way the model is developed. Currently, using the statistical approach, ERCOT conducts its analysis each year and then presents results to stakeholders. TPPA urges the Commission to ensure that, should ERCOT move to a probabilistic model, stakeholders would be equipped with the information necessary to understand and interpret the model as well as ERCOT's assumptions.

4. How should other services that support grid reliability but are not procured day ahead, such as Emergency Response Service and Firm Fuel Supply Service, be taken into consideration within this review, for example with respect to the proper criterion to determine AS quantities?

TPPA recommends the Report quantify the reliability benefits that ERS and FFSS provide. These services are commonly referred to as "tools in the toolbox," and, like AS, there should be a direct relationship between these services and clearly articulated the grid reliability benefits. TPPA would further recommend the inclusion of any other demand response programs that are ERCOT-dispatchable, such as demand response directly procured by an ERCOT RFP.

For FFSS specifically, TPPA recommends that FFSS capacity be accounted for as a reduction to the assumed natural gas unit outage rates during cold weather in ERCOT's study assumptions.

5. How should procurement quantities for Dispatchable Reliability Reserve Service be calculated and incorporated to the annual AS methodology as an ancillary service to support operational reliability?

TPPA recommends the Commission provide direction on the key policy factors needed to develop DRRS. Currently, there are at least two competing DRRS proposals being considered in the stakeholder process. One approach seeks to use DRRS directly as a resource adequacy tool to incent investment into more dispatchable resources. This group of stakeholders recommends that only off-line generation resources be eligible to provide the new AS and for the service to be used to decrease the amount of RUC instructions that ERCOT currently deploys. Meanwhile, another group supports a version that would allow energy storage resources (ESRs) and load resources to participate in providing the service and tailoring it to be utilized during times when there is higher net load uncertainty, making DRRS more of a strictly operational tool.

TPPA does not have a specific recommendation on the quantity of DRRS that ERCOT should procure until it is clear what operational purpose the new service will provide, and which types of resources will be eligible to provide it. TPPA believes both factors are policy decisions that need to be made by the Commission. Until clarification is provided on the underlying purpose of DRRS, the types of resources that will be permitted to provide DRRS, and how DRRS will fit into an overall policy architecture, TPPA is unable to provide a specific recommendation on procurement quantities.

6. Are there any other aspects of the filed draft report that the Commission should consider in developing its final recommendations?

Historical Annual Costs for each AS. TPPA agrees that reliability is paramount, but cost needs to be weighed when discussing any additional incremental reliability benefit gained through new AS products and increased AS procurement quantities. To that end, TPPA appreciates that the report includes a table on the historical annual costs for each AS. However, TPPA recommends the table be expanded to include information dating back to 2015, yearly average real time energy prices, and have additional analysis provided along with the table to explain what factors affect costs. Examples of factors that deserve an explanation on how they impact energy and AS prices include: extreme weather, natural gas prices, generation resource mix, age of fleet, and AS procurement quantities. TPPA believes the existing table does not provide a clear picture of the true prices the market and consumers have incurred due to inefficient AS procurements since 2021 and conservative operations. Providing more extensive data would help demonstrate the correlation between gas prices and the overall cost increase the market has experienced due to conservative operations.

Pricing each AS Subtype Individually. TPPA also supports the IMM's recommendation to price each AS subtype individually.

III. Conclusion

TPPA appreciates the opportunity to submit these comments. As always, TPPA looks forward to working with the Commission, Commission Staff, and stakeholders on this important discussion in the coming months.

Dated: October 21, 2024

Respectfully,

SIGNED WITH PERMISSION BY TAYLOR KIRBY

Mariah Benson
Regulatory Affairs Manager
Texas Public Power Association
PO Box 82768
Austin, Texas 78708
(512) 472-5965
mbenson@tppa.com

PROJECT NO. 55845

REVIEW OF ANCILLARY SERVICES IN THE ERCOT MARKET	**§** **§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

EXECUTIVE SUMMARY OF TPPA'S RESPONSE TO QUESTIONS FOR COMMENT

In the above comments, TPPA makes several recommendations, including:

- The Commission should publish a revised blueprint on forthcoming market design changes. The Commission should also be the forum in which policy issues are contemplated and directed. Major policy issues should be considered in Commission projects that provide transparency and allow for stakeholder input.
- The Commission should provide direction on:
    - How DRRS should be implemented, and whether DRRS and/or other AS products and procurement quantities should be used to solve resource adequacy concerns or should primarily be used to address operational reliability needs; and
    - Whether existing AS procurement quantities are acceptable and conservative operations should continue, or if ERCOT should only procure quantities of AS needed to meet operational reliability needs.
- If the Commission determines AS procurements are meant to primarily address operational reliability needs, then the quantity of the AS procurement should be based on the amount of reserves needed to avoid load shed.
- If, alternatively, AS procurements should also directly address resource adequacy concerns, the Commission should open a new project and seek stakeholder feedback on the correct AS retrofit options and procurement changes to address this new direction.
- If conservative operations will continue, the Commission should seek additional feedback on:
    - How to improve self-commitment,
    - Whether prices are correctly pricing generation scarcity; and
    - Whether existing deployment triggers are correct.
- More transparency should be provided by ERCOT around the AS methodology, regardless of statistical or probabilistic modelling. TPPA prefers a probabilistic approach.
- In its review, the Commission should include ERS and FFSS. FFSS should be accounted for as a reduction to the assumed natural gas unit outage rate during cold weather.
- The table on historical annual cost for each AS in the Report should be expanded to include information dating back to 2015; yearly average real time energy prices; and to provide an explanation of factors that affect costs, including:
    - Extreme weather,
    - Natural gas prices,
    - Generation resource mix.
    - Age of fleet,
    - AS procurement quantities, and
- Each AS subtype should be priced individually, as recommended by the IMM.