
A ROADMAP FOR IMPROVING RELIABILITY IN ERCOT

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NEAR-TERM SOLUTIONS

THE ONLY GENERATION AVAILABLE FOR AT LEAST THE NEXT TWO WINTERS, POSSIBLY LONGER, IS WHAT'S ALREADY INSTALLED. Policymakers should focus on ensuring there is fuel supply available and incentivizing generator reliability. **Expensive winterization standards without recovery will have the unintended consequences of leading to more retirements.**

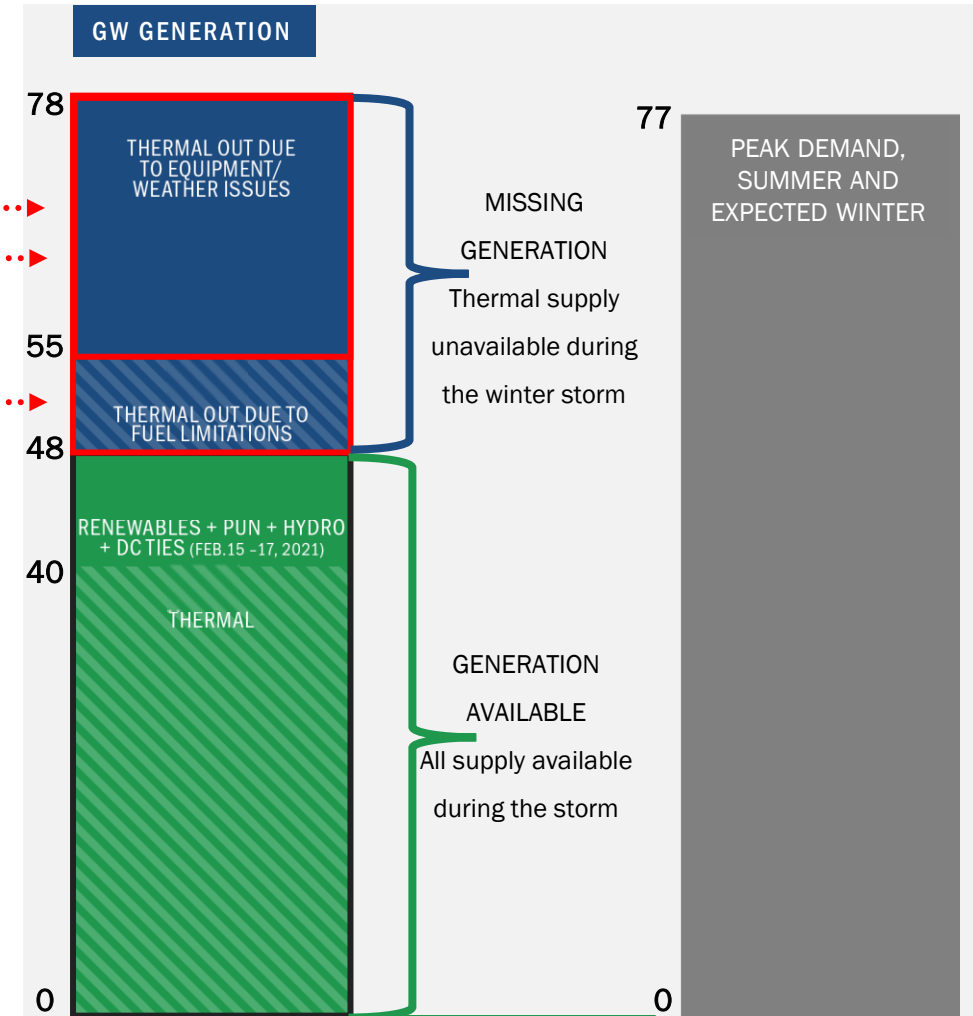
STEPS TO ENSURING THE AVAILABILITY OF EXISTING GENERATION:

1. MARKET SOLUTIONS TO INCREASE GENERATION RELIABILITY

- + Market changes: modify scarcity pricing (ORDC) for winter (can be combined with lower cap); provide a winter reliability payment to thermal sources that could be clawed back for non-performance.
- + Create funding mechanisms for weatherization: Directly fund improvements via state mechanism (ESF, stimulus, low interest loans, tax incentives)

2. INCREASE NATURAL GAS SUPPLY RESILIENCY & TRANSPARENCY

- This is needed both for generators derated for fuel supply and for incremental gas generators out for other reasons.*
- + Weatherization standards and critical infrastructure mapping for fuel supply infrastructure.
 - + Require intrastate pipelines to provide more transparent operational and pricing information (align intrastate rules with interstate rules)
 - + Prohibit fuel suppliers from cutting dispatchable gas supply contracts to generators while they continue to sell/resell to other customers and prohibit critical gas infrastructure from participating in demand response programs
 - + Create funding mechanisms for increasing gas supply to generators via increased storage and pipeline capacity



LONG-TERM MARKET-BASED SOLUTIONS

New generation can be added using the competitive market – for less money and with less risk to consumers – by establishing a reliability standard met through market-based mechanisms.

KEY RECOMMENDATIONS

THE LEGISLATURE SHOULD:

ESTABLISH A RELIABILITY STANDARD TO BE ACHIEVED THROUGH THE MARKET.

→ Empower the PUCT to holistically review all the potential solutions and determine which method is the best for consumers.

PROVIDE INCENTIVES FOR INCREASING FUEL SUPPLY TO GENERATORS.

→ Fund gas storage and pipeline buildout to generators. During the winter storm gas prices were at extreme levels and 7,000MW of generators had derates for fuel limitations. This happened despite half of gas generation being offline and a significant amount of heating load offline due to power cuts. It is unlikely that there will be enough gas supply during future extreme winter events without changes.

THE PUCT SHOULD DECIDE ON A PREFERRED METHOD(S) OF ACHIEVING THE DESIRED RELIABILITY RESULTS INCLUDING:

→ **MODIFY THE ORDC.** Consider modifying the shape of the curve, the cap, seasonality, and allocation.

→ **CREATE A RELIABILITY PRODUCT.** Consider targeted seasonal goals and performance-based payments to dispatchable resources.

→ **DEVELOP NEW ANCILLARY SERVICE PRODUCTS FOR RELIABILITY.** Consider products to address intermittent resource concerns.

WHAT'S WRONG WITH BUILDING REGULATED GENERATION? A LOT.

WHAT IT WON'T DO

- It does not ensure that consumer outages do not recur.
- It does not ensure performance by the generators and the plants can still fail.
- It does not have strict penalties for underperformance. For example, there is no penalty if the units are on maintenance outage.

THE RISKS TO CONSUMERS

- The price tag is limitless: the return is on actual costs spent without any incentives to keep costs in check.
- The expected price does not include the associated transmission and pipeline upgrades, which would be required to implement the project.
- The regulated entity is guaranteed a payback on all stranded costs if the plan fails.
- The timeline is not firm and includes a provision allowing for delayed start.

THE UNINTENDED CONSEQUENCES ARE GRAVE

- It would lead to the end of the competitive market: the result would be most or even all the capacity in the market being **owned and managed by a single regulated monopoly provider**.
- It would harm reliability by prompting retirement of many existing resources, which will lead to an increased need for **additional regulated contracting and a shutdown of competitive entry** by generators of all types.
- It would put all risk on consumers by asking Texas consumers to pay all their costs to develop, maintain and operate their facilities. The price tag is stated at \$8 billion but could balloon even higher.
- It would give the regulated generation a guaranteed return of (at least 9.3%) in statute for 40 years with very limited penalties or consequences or recourse if they fail to perform for any of the reasons that caused generator failure during Winter Storm Uri.

Texas electricity markets have used the power of competition to bring prices down for consumers – a 20% drop in power prices between 2008 and 2018.

Discarding this system and building regulated generation would lead to California-style ad-hoc re-regulation of ERCOT's electricity markets, which would ultimately harm reliability and raise costs for customers.

THANK YOU

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