

PUCT PROJECT NO. 52631

REVIEW OF 25.505

**§ PUBLIC UTILITY COMMISSION
§ OF TEXAS**

**EXECUTIVE SUMMARY OF TEXAS COMPETITIVE POWER ADVOCATES
COMMENTS ON THE HIGH SYSTEM-WIDE OFFER CAP**

- The Commission should implement all reforms to the ORDC at the same time as lowering the HCAP to ensure prices in the competitive market appropriately reflect the value of operating reserves.
- TCPA recommends, at a minimum, that ORDC reforms include an increase to the “probability of reserves falling below the minimum contingency level” (PBMCL), and, if needed, additional modifications of the ORDC to increase the value of a higher level of operating reserves and to help achieve commission’s reliability objective. The Commission should direct Brattle to evaluate a menu of proposed shifts to the PBMCL and other modifications to the ORDC. As one option, TCPA recommends evaluation of a PBMCL shift to between 2,800MW to 3,000MW with the Commission’s proposed reduced HCAP of \$4,500.
- The ORDC reforms should at a minimum incentivize the economic commitment of a desired level of real-time operating reserves of 6,500MW to 7,500MW at a reasonable price. This is needed to ensure that resources will have the financial incentive to self-commit and ERCOT won’t have to rely on out-of-market forced commitment of resources to get to desired operating reserves levels.
- TCPA supports a lower HCAP but only in conjunction with ORDC reforms but cannot opine on whether \$4,500 is an appropriate price cap in isolation. Setting a lower HCAP without also implementing changes to the ORDC takes a step backwards in providing the necessary investment signals to existing and new generation resource owners.
- Lowering the HCAP without implementing broader ORDC reforms would undercut the Legislature’s goal to align the competitive market with the required reliability articulated by the legislative and executive leadership.
- The Commission should direct ERCOT to file the OBDRR necessary to implement the comprehensive ORDC forms adopted by the Commission following a determination based

on the Brattle analysis, with those changes becoming effective simultaneously with any changes in HCAP.

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TEXAS COMPETITIVE POWER ADVOCATES (TCPA) COMMENTS
ON THE HIGH SYSTEM-WIDE OFFER CAP

Texas Competitive Power Advocates (TCPA) is a trade association representing power generation companies and wholesale power marketers with investments in Texas and the Electric Reliability Council of Texas (ERCOT) wholesale electric market. TCPA members¹ and their affiliates provide a wide range of important market functions and services in ERCOT, including development, operation, and management of power generation assets, power scheduling and marketing, energy management services and sales of competitive electric service to consumers. TCPA members participating in this filing provide nearly ninety percent (90%) of the non-wind electric generating capacity in ERCOT, representing billions of dollars of investment in the state, and employing thousands of Texans.

I. Commission Question

- 1. When the Commission amends its rules to adjust the HCAP, should it set the HCAP at \$4,500 per MWh? In addressing this question, please also address any consequences of this change relating to the value of lost load, which is set at the HCAP when the HCAP is in effect.*

TCPA's comments are offered in light of the Commission's stated desire to lower the HCAP to \$4,500, without speaking to whether that is *the* appropriate HCAP price. TCPA respectfully submits that an HCAP of \$4,500 *can* be appropriate, but only if properly coordinated with other changes to the ORDC parameters and shape. The Commission is receiving market design proposals from many parties at the same time these comments are being filed, many if not most of which are likely to include some recommendations regarding ORDC. ERCOT has also

¹ TCPA member companies participating in these comments include: Calpine, Cogentrix, EDF Trading North America, Exelon, Luminant, NRG, Shell Energy North America, Talen Energy, Tenaska, TexGen Power, and WattBridge.

retained the Brattle Group to examine those filed and other proposals to determine which ORDC parameters will best advance the state's reliability goals in the context of overall market changes.

TCPA does recommend that the HCAP level, regardless of where the Commission determines it should be, be set such that in coordination with any other changes the revised ORDC is able to account for the new conservative operating posture in ERCOT. TCPA suggests that the Commission work from a principle of preventing further harm to the competitive market in ERCOT. Adopting a lower HCAP, without any additional changes to the ORDC, would take an unequivocal step backwards in the Commission's efforts to send a clear signal to existing and prospective generation resource owners that the Commission seeks to attract more investment in ERCOT through maintenance and expansion.²

TCPA understands the Legislature intends for the PUC to develop a competitive market solution in ERCOT that achieves a reliable grid through maintaining the existing fleet and providing investment signals, through a stable and consistent revenue stream, that additional investment is needed in both new dispatchable generation resources as well as in those currently operating in ERCOT. Lowering the HCAP without simultaneously addressing other needed ORDC changes (i.e., the PBMCL shift and additional modifications to the curve to address the new ERCOT requirement to have 6,500-7,500MW in reserves and to incentivize investment) will be entirely counter to the Legislature's goal to align the competitive market with the required reliability.

The Commission should direct ERCOT to work with Brattle on an analysis to determine the appropriate numbers to be included for PBMCL and the appropriate modifications to the curve. The direction should be to ensure that revenues properly reflect investment signals and operating requirements, and to ensure that any reduction to the HCAP does not depress prices such that a signal to retire and not invest is sent. Additionally, the direction should be to include ORDC reforms that, at minimum ensure that the reserves ERCOT has determined are needed to ensure

² TCPA observed that in the immediate aftermath of the Commission's announcement of a reduction in the HCAP to \$4,500 without any corresponding changes to the ORDC, forward prices for ERCOT summer 2022 decreased significantly.

reliability are obtained through the market with self-commitments and not through the Reliability Unit Commitment (RUC) process, which is a control room-determined out-of-market action. The goal should be to allow the energy and ancillary service markets, in concert with the ORDC, to provide proper revenues to resources without having to be in an energy emergency situation.

TCPA recommends the Commission direct Brattle to include in its evaluation of the appropriate shifts to the PBMCL and other modifications to the ORDC a scenario that shifts the PBMCL to between 2,800MW and 3,000MW to encourage commitment of more operating reserves by market participants, in conjunction with the lower HCAP (whether it be \$4,500 or some other level), as well as additional ORDC modification options, if needed, to help achieve the Commission's reliability objective. The ORDC reforms should result in the desired real-time operating reserves of 6,500MW to 7,500MW at a reasonable price to incent self-commitment of resources to provide those reserves.

Lowering HCAP without adjusting the ORDC would result in the ERCOT market continuing to rely on the crisis-based model that has created the problems the Commission is seeking to resolve, but with even less investment incentive. Absent accompanying changes in the curve and other reforms to provide additional revenue, generators, regardless of resource type, will be required to continue to rely on scarcity events to yield sufficient revenues to continue to operate in ERCOT, let alone make new investments.

TCPA has clearly heard both the Legislature's and the Commission's intention that the market move away from a crisis-dependent market to one that provides a more stable and consistent revenue base for generators, as well as more predictable pricing for loads. For that reason, TCPA also recommends that the minimum goal be stated as providing consistent revenues to result in generator self-commitment, which targets dispatchable resources that can commit without concerns for weather impacts to their availability, in quantities that ensure ERCOT has the operating reserves needed to run the system reliably without triggering an energy emergency.

The ORDC will naturally incentivize dispatchable resources because they can respond to price signals when reserves decline. Therefore, if the ORDC inputs are properly set, the market will compete to address the reliability desired by the Commission and ERCOT. Since dispatchable resources are the only ones that commit, based on price, the market will attract more dispatchable

resources. If the ORDC is not holistically addressed simultaneously with an HCAP reduction to ensure the market responds to pricing – that is, it fails to properly reflect both the reserves expected to be on the system for reliability and the revenues taken out of the market by lowering the cap – then the market will not receive the signal that energy prices will yield competitive revenues and the desired investment will not materialize. It is crucial for the successful future of reliability through the competitive market that the Commission clearly direct adoption and simultaneous implementation of the complete ORDC reforms along with the HCAP reduction.

II. Conclusion.

TCPA appreciates the Commission’s consideration of these comments and requests that the Commission:

- Direct Brattle to evaluate the proposed ORDC reforms. TCPA recommends this evaluation include scenarios that increase the PBMCL to between 2,800MW and 3,000MW to incentivize self-commitment of operating reserves, as well as additional modifications, if needed with other design changes, to help achieve Commission’s reliability objective. The ORDC reforms should encourage desired real-time operating reserves of 6,500MW to 7,500MW at a price sufficient to incent self-commitment of resources to provide the reserves and invest in the market.
- Direct ERCOT to file the OBDRR necessary to implement the comprehensive ORDC forms adopted by the Commission following a determination based on the Brattle analysis.

We look forward to continued discussion on this important topic and to working with the Commission, ERCOT and other stakeholders to implement ORDC changes that will help facilitate the kind of competitive market sought by the Legislature and Texas consumers.

Dated: Sept. 30, 2021

Respectfully submitted,



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