PROJECT NO. 52373

REVIEW OF WHOLESALE ELECTRIC MARKET DESIGN	§ § §	**PUBLIC UTILITY COMMISSION** **OF TEXAS**

TCPA COMMENTS ON CONCEPTS DISCUSSED AT NOVEMBER 19, 2021 WORK SESSION

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 members[1] 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 provide almost ninety percent (90%) of the non-wind electric generating capacity in ERCOT and represent a diverse set of generation interests, all contributing in critical and complementary ways to the efficient operation of a competitive energy-only market. TCPA members have invested billions of dollars in the state and employ thousands of Texans.

Brattle's Option 1 (LSE Obligation +) is necessary to directly solve for the dispatchable resource adequacy needs of Texas

TCPA appreciates the Commission's extensive review of needed market design reforms to ensure reliability is achieved through competitive markets. Since TCPA companies represent the overwhelming majority of dispatchable generation in ERCOT, TCPA wanted to highlight the concepts around which we have consensus, particularly since these companies represent the resources for which both the Legislature and the Commission have repeatedly expressed a need for additional investment.

Energy prices and forward market expectations of energy prices help provide the signal for dispatchable generation investment in ERCOT. The Operating Reserve Demand Curve (ORDC) is a critical component of energy price formation and is important to manage day-to-day operations

[1] TCPA member companies participating in these comments include: Calpine, Cogentrix, Exelon, Luminant (Vistra), NRG, Shell Energy North America, Tenaska, and TexGen Power.

of the market. Changes to the ORDC curve, such as lowering the price cap and correspondingly increasing the Value of X and shifting the curve are necessary to align financial incentives with ERCOT's new conservative operating approach and maintain the forward prices curves. Moreover, the Commission should adopt ORDC reforms that decrease the Loss of Load Expectation (LOLE), consistent with societal expectations, by providing a strong forward investment incentive to ensure reliability.

TCPA supports Brattle's framing of the problem statements and objectives for the Commission as well as the solutions recommended by Brattle. Solving for the dispatchable resource adequacy needs of the State is crucial to the continued success of the market because without a reliable system, the competitive market is unlikely to survive.

Brattle's Option 1 (LSE Obligation +) directly solves for the dispatchable resource adequacy needs of the state over the long-term. No other proposal put forth solves this need directly. Additionally, Brattle testified that this would lead to investment in new generation. As long as the Commission adopts a reliability standard that aligns with the expectations of the Commission and Legislature, TCPA believes the market will respond.

TCPA supports the following details provided by Brattle in relation to Option 1:

- The idea of a centralized residual auction with participation requirements to address concerns raised about market power and ensure a level playing field for all load serving entities, big and small;
- The notion that there are several ways Option 1 can be designed to meet the state's needs: a broad, seasonal market inclusive of all resources that contribute to reliability such as dispatchable generation, demand response, and batteries to ensure innovation at the lowest cost through competitive market forces; and
- This Option only adds costs to the market until sufficient reliability is achieved, at which point the costs will decline.

TCPA does not believe that Option 1 and Option 2, Targeted Fuel and Backup Reserves, are mutually exclusive. Rather, Option 2, which has a shorter implementation timeline, helps to retain existing resources in the ERCOT market and helps to support new investment signals in the energy market and in forward energy markets. As a result, these two proposals can work together to send strong signals to the market that this Commission is intent on maintaining existing resources as well as developing new resources, all within the competitive market framework. As explained by Brattle, the costs of Option 1 and Option 2 are similar and interrelated. Implementing both will not increase total costs but will change where the financial incentives come from by allowing the mechanism in Option 2 to be utilized first and the mechanism in Option 1 operate in the background if Option 2 is insufficient to meet the reliability standard. In other words, increased dispatchable capacity resulting from Option 2 would be eligible to satisfy the requirements in Option 1. Therefore, by adopting Brattle's Option 1 and Option 2 in combination, the Commission will solve for long-term reliability while also strengthening operational reliability and fuel security with the existing fleet. The Commission should open a separate project to support working out the details of the implementation in order to understand the impacts and avoid unintended consequences.

Finally, TCPA strongly opposes the Dispatchable Energy Credit (DEC) concept proposed by Commissioner McAdams. It is discriminatory and violates economic theory. Crowding out existing dispatchable generation with new, narrowly defined subsidized dispatchable generation, the DEC concept, as proposed, would force the retirement of long-duration but perhaps slower dispatchable generation in favor of shorter-duration dispatchable resources – a net negative for the reliability needs of Texas. TCPA has a long record of opposing subsidization of resources regardless of its form. TCPA has opposed the subsidization of renewable resources because they violate economic principles and distort market prices, and we oppose subsidization of short-duration dispatchable generation as well. While the Commission cannot repeal federal subsidies, it can mitigate their impacts and refuse to impose additional subsidies at the state level. Implementation of the DEC concept will have a chilling effect on investment, causing investors to put capital in other markets while seeking commensurate subsidies in ERCOT as a condition of investment.

TCPA appreciates the consideration of these positions. Our member companies have been active in ERCOT since the inception of the competitive market, and we have a vested interest in ensuring the continuation of a competitive market that is well-functioning. With the emphasis on retaining existing dispatchable resources and seeking investment in new resources, TCPA wanted to provide timely input on the concepts its membership collectively supports as well as those we believe are counter to the goals delineated by the Legislature, the Governor, and the Commission. We believe Brattle's framing of the issues which need resolved, as well as the solutions they propose are the direction the Commission should adopt in order to align the new reliability requirements with new market design needs. The best solution for achieving the goals identified by Brattle and the Legislature would be for the Commission to provide clear direction by the end of the year. Further delay will only leave uncertainty in the market, having the opposite impact of what is intended.   We look forward to continuing to work with the Commission and stakeholders and stand ready to answer questions.

Dated: November 30, 2021

Respectfully submitted,

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EXECUTIVE SUMMARY OF TCPA COMMENTS ON 11-29-21

TCPA supports Brattle's framing of both the problems to be solved as well as the solutions needed to ensure the new reliability requirements are achieved through the competitive market.

- Reform ORDC in a manner that will provide a strong forward investment signal and reduce LOLE versus current levels.
- Option 1 (LSE Obligation +) is necessary to directly solve for the dispatchable resource adequacy needs of the state. No other proposal put forth solves this need directly. Brattle testified that this would lead to investment in new generation.
    - We support the idea of a centralized residual auction with participation requirements to address concerns raised about market power.
    - A centralized procurement can help ensure a level playing field for all load suppliers because the cost is equally allocated to all suppliers, big and small.
    - There are several ways option 1 can be designed to meet the state's needs - broad, seasonal market inclusive of dispatchable generation, demand response, and batteries to ensure innovation and a competitive marketplace.
    - This option only adds costs to the market until sufficient reliability is achieved, at which point the costs will decline.
- Option 2 helps to retain existing resources and helps to support new investment signals in energy market/forwards. With Option 2's shorter implementation timeline, it could act as bridge while Option 1 is being developed.
- Having a robust ORDC curve is the foundation of the market and the best tool to manage day-to-day operations. Changes to the ORDC curve are necessary to lower the price cap, maintain the forward prices curves, and align financial incentives with ERCOT's new conservative operating mantra.

- Combining #1 and #2 solves reliability over the long-term; Option #2 will help with this and can strengthen operational reliability and fuel security with the existing fleet.
- TCPA opposes the DEC concept. It is discriminatory and violates economic theory by assuming a "free lunch."
- DEC will crowd out existing dispatchable generation, some long-duration but slower, with new subsidized shorter-duration dispatchable generation, which is a net negative for reliability.