**PROJECT NO. 53298**

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| **WHOLESALE ELECTRIC MARKET DESIGN IMPLEMENTATION** | **§**  **§**  **§**  **§** | **PUBLIC UTILITY COMMISSION**  **OF TEXAS** |

**TCPA RESPONSE TO STAFF QUESTIONS ON FIRM FUEL SUPPLY SERVICE (FFSS)**

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]](#footnote-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. TCPA members have invested billions of dollars in the state and employ thousands of Texans.

TCPA appreciates the opportunity to provide comment to Staff’s questions, and TCPA

members have provided input regarding FFSS at ERCOT as well. It is unclear whether the parameters of the FFSS determined in the current implementation are intended to apply only to the first round of procurements or if they will be permanent parameters for the duration of the program. If these parameters are intended to apply to the first round of procurements, then the scope of eligibility, the appropriate sizing of capacity procured, and timeframe will be different than if these will apply for the duration of the program. For the long-term program, surplus coal reserves, as well as nuclear fuel reserves, should be considered eligible to participate and the quantities of resources procured may need to vary by fuel type. Additionally, consideration should be given to whether concentration of firm fuel in certain geographic areas would free up gas in other areas of the state or if firm fuel procurements need to be geographically diverse to shore up the fleet statewide.

Lack of transparency on the intrastate gas system makes identifying specific geographic chokepoints that need firm fuel to alleviate difficult to pinpoint. The independent reports from the Federal Energy Regulatory Commission (FERC), the University of Texas, and information still unavailable to generation resources as well as regulatory agencies in Texas demonstrate the intrastate gas system’s near total lack of real-time information regarding flows at various receipt points and prices the gas is trading at on those delivery and receipts points.[[2]](#footnote-2) This is notwithstanding that such information is available in Texas through Electronic Bulletin Boards (EBBs) required on interstate pipelines. As demonstrated by the line of questions asked during the March 9, 2022 Senate Business & Commerce Committee hearing by Senators Johnson, Campbell, and Kolkhorst and responses by Railroad Commission (RRC) Chairman Wayne Christian, statutory authority to require such information appears to exist currently but is not being exercised by the RRC. Chairman Christian indicated he thought the Legislature would need to specifically require such transparency before the RRC could exercise any oversight over the information provided in the intrastate gas market. TCPA supports the RRC utilizing its statutory authority, current or contemplated, to bring the intrastate natural gas market up to speed with national standards. This change would be useful in determining whether future procurements should provide for geographically diverse firm fuel, and may lend to additional investment in areas of the state in which lack of firm fuel is inhibiting reliability during extreme cold.

**TCPA Response to Staff Questions**

1. ***What is the appropriate contract term for initial FFSS procurements? Should subsequent procurements have a different contract term?***

Generally, TCPA supports the 2-year contract proposed by ERCOT in NPRR1120 but reserves the right to change our perspective as we get more experience with this product. We recommend that contracts align with environmental limits to allow resources to better reserve those allowances. The current NPRR proposal appears to mimic the Black Start process. TCPA recommends ensuring the RFP process is consistent with the Protocols or that Protocols be revised to align with the RFP procurement process. TCPA also believes this product could eventually be subsumed by a comprehensive resource adequacy solution such as LSERO where firm fuel could be accredited as a more reliable resource as part of the design.

1. ***What sustained duration of FFSS should ERCOT procure? PURA § 39.160(c)(2) requires ERCOT to procure at least 48 hours of generation that can withstand fuel supply 1 Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016. Page 1 of 2 disruptions. What are the advantages and disadvantages of requiring a longer sustained duration?***

The statute says “several days” which is usually viewed as more than two days since “a couple of days” is the typical terminology used for two days. While the proposal in the memo is a 72-hour duration, TCPA supports any time frame that exceeds forty-eight (48) hours but not more than five days. TCPA recommends the Commission clarify whether the duration timeframe applies to the full resource capacity for the required hours or if it applies to a lower level of operations that is sustained for a longer period of time, such as the full seventy-two (72) hours. TCPA cautions that if the required duration is too long, then the cost to provide such a resource may outweigh the benefit. We expect that a timeframe between 48 and 72 hours should correlate to a duration expected for a typical strained natural gas system event though it might fall short if the intent is to offset more extreme impacts to the natural gas fuel infrastructure, such as those experienced during Winter Storm Uri.

1. ***What quantity of FFSS should ERCOT procure? Should it be measured in terms of monetary budget or generation capacity over the specified duration?***

TCPA believes the quantity to procure will depend on the weather or intermittent generation scenario the Commission is trying to address as well as the type of fuel limitation to be addressed. The cost for the procurement should be tied to a specific problem this solution seeks to solve. The upper bound on the cost could be determined by a budget constraint or a demand curve.

TCPA believes that specifying the amount of generation capacity expected for this product over the requisite duration is the appropriate measurement and method for right-sizing it. Procuring an amount that is only equivalent to the current resources that have this capability will not send a signal to the market that additional investment is needed in these technologies or resources. Additionally, a specific megawatt (MW) amount for dual fuel should be specified and a separate MW amount should be specified for qualified off-site gas storage. If Winter Storm Uri is the basis for establishing the procurement amount, it is important to note that at least 5 gigawatts (GW) of resources could not get fuel. However, there are more generation resources that have been further winterized since Uri that would still be unable to run in a similar storm due to lack of fuel. As such, the more conservative posture would be to procure more than 5GW. Brattle suggested approximately 25GW in order to prevent another Uri type event, which represents the approximately 5GW who were unable to attain gas supply during Uri plus the 20GW on outage that would not have been able to attain gas supply if they were running.[[3]](#footnote-3) If this is deemed to be too costly, TCPA recommends a gradual increase to the optimal firm fuel procurement MW that is determined based on a risk analysis. TCPA recommends consideration of 10-15GW as an initial compromise between cost and resiliency. As noted at the outset of these comments, this assumes the question is only regarding initial implementation. Over the longer term, the Commission should view this service as a means of ensuring fuel diversity and resiliency by including coal and nuclear fuel reserves as well, which would support a higher target quantity.

A demand curve for the procurement of the product will ensure appropriate MWs are procured based on the value of the resiliency. TCPA is also open to the idea of an annual cost cap, but in either case would want more discussion around what the demand curve or cost cap should be to ensure that risks are appropriately valued.

**Eligible Resources**

1. ***What attributes should be required for a resource to be eligible to provide FFSS?***

TCPA believes this program should be expanded to include technologies beyond dual fuel. Other options could include coal and nuclear fuel storage, and levels of service on gas pipeline and off-site storage facilities should be eligible under a long-term FFSS program. The FFSS product could include additional requirements that limit gas suppliers from declaring force majeure on or otherwise curtailing service to FFSS resources and require weatherization of gas facilities supplying FFSS. This program should reward fuel resiliency attributes as opposed to penalizing some attributes. Coal and nuclear resources also have reserves of fuel onsite, and SB 3[[4]](#footnote-4) clearly contemplates multiple types of resources with firm fuel capability as eligible for a firm fuel product and capabilities beyond dual fuel. TCPA supports the inclusion of coal and nuclear resources in this product.

In addition, TCPA recommends that weatherization, particularly as Phase II is contemplated, be included as an eligibility requirement for this product that would also provide a mechanism to recoup costs for weatherization. To date, weatherization costs for market generators are wholly uncompensated.

1. ***What should be the minimum sustained duration for an eligible resource, if not the full sustained duration? What are the advantages and disadvantages of requiring a longer minimum sustained duration for eligible resources?***

TCPA does not have any comments beyond those provided in response to question 2.

**Procurement Price**

1. ***How should the price awarded to each Firm Fuel Supply Service Resource (FFSSR) be determined?***

If the Commission adopts a system-wide clearing price, a transparent price signal would be sent to the market to indicate a need for new investment in this product. However, if different types of fuel reserves are providing FFSS, that will diversify sources but may result in cheaper types of firm fuel overwhelming the market and crowding out of the market for more expensive but very needed other types of firm fuel. To ensure this does not occur, TCPA recommends a system-wide clearing price for each type of firm fuel be considered if the Commission desires to procure minimum MW from different types of firm fuel.

1. ***Should there be a single clearing price for all FFSSRs or should the price awarded equal the amount bid by each FFSSR?***

TCPA believes that this product should evolve into a system-wide clearing price. System-wide clearing prices provide the most transparent price signal to the market and therefore is best for coordinating investment decisions across diverse market participants. The commission should review the need for minimum MW procurement from different type of firm fuel to ensure fuel diversity. If that is established, then different fuel types could have different clearing prices to ensure correct price signals are sent to incentivize diversity of firm fuel supply in awarded contracts.

1. ***Should the price awarded to each FFSSR vary depending on the characteristics of the FFFSR?***

Awarding prices based on individual characteristics of a resource is not ideal and is an inefficient structure. If such a system is required for initial implementation, the Commission should commit to a timeframe in which prices awarded will evolve to a single clearing price, at least insofar as FFSSRs are comparable. While the quantities of resources procured should vary based on performance attributes, TCPA believes the price should be as uniform as possible.

Dated: March 21, 2022

Respectfully submitted,

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**EXECUTIVE SUMMARY OF TCPA RESPONSES TO STAFF FFSS QUESTIONS**

* The Commission should clarify if the parameters in the current implementation apply only to the first round of procurements or if they will be permanent parameters for the duration of the program.
* Surplus coal reserves and nuclear reserves should be considered eligible to participate and the quantities of resources procured may need to vary by fuel type.
* Consideration should be given to whether concentration of firm fuel in certain geographic areas would free up gas in other areas of the state or if firm fuel procurements need to be geographically diverse to shore up the fleet statewide.
* Lack of transparency on the intrastate gas system makes identifying specific geographic chokepoints that need firm fuel to alleviate difficult to pinpoint.
* To address this transparency issue, TCPA supports the RRC establishing a requirement that all intrastate pipelines be required to utilize Electronic Bulletin Boards (EBBs) and provide the transparent information needed to ensure both buyers and sellers in Texas have equitable information about flows and pricing in order to level the transactional playing field.
* TCPA recommends that FFSS contracts align with environmental limits to allow resources to better reserve those allowances.
* The RFP process should be consistent with the Protocols or the Protocols should be revised to align with the RFP procurement process.
* A sustained duration timeframe between 48 and 72 hours should correlate to a duration expected for a typical strained natural gas system, though might fall short if the intent is to offset more extreme impacts to the natural gas fuel infrastructure, such as those experienced during Winter Storm Uri.
* PURA 39.159(c) clearly contemplates multiple types of resources with firm fuel capability as eligible for a firm fuel product and capabilities beyond dual fuel. This program should reward fuel resiliency attributes as opposed to penalizing some attributes and should be expanded to other types of fuel resiliency than dual fuel.
* Weatherization, particularly as Phase II is contemplated, should be included as an eligibility requirement for this product that would also provide a mechanism to recoup costs for weatherization, which to date are uncompensated.
* A system-wide clearing price would send a transparent price signal to the market, indicating a need for new investment in this product.
* Different fuel types should have different procurement targets to ensure diversity of firm fuel supply is awarded contracts.
* To ensure that cheaper types of firm fuel don’t overwhelm the market and crowd out more expensive but needed other types of firm fuel, a system-wide clearing price for each type of firm fuel may be needed to send price signals to attain the different procurement targets for different fuel types.
* The quantities of resources procured should vary based on performance attributes, but the price should be uniform across comparable firm fuel types.
* Procurement should account for the fact that more weatherized generation resources means that in order to prevent another Uri type event, more generation could face fuel supply issues (e.g., one estimate was ~25 GW). TCPA recommends a gradual increase to the optimal firm fuel procurement MW that is determined based on a risk analysis. 10-15 GW of FFSS may be an initial compromise to balance cost and resiliency. Further discussion is needed to ensure that the annual cost cap or demand curve appropriately values the risk of the specific problem this solution seeks to solve.

1. TCPA member companies participating in these comments include: Calpine, Cogentrix, Constellation (formerly Exelon), EDF Trading North America, Luminant, NRG, Shell Energy North America, Talen Energy, Tenaska, TexGen Power, and WattBridge. [↑](#footnote-ref-1)
2. [The February 2021 Cold Weather Outages in Texas and the South Central United States | FERC, NERC and Regional Entity Staff Report | Federal Energy Regulatory Commission](https://www.ferc.gov/media/february-2021-cold-weather-outages-texas-and-south-central-united-states-ferc-nerc-and) and [ERCOT Blackout 2021 | Energy Institute | The University of Texas at Austin (utexas.edu)](https://energy.utexas.edu/ercot-blackout-2021) [↑](#footnote-ref-2)
3. PUCT Work Session, November 19, 2021, Brattle presentation at approximately 31 minutes. [↑](#footnote-ref-3)
4. PURA §39.159(c) [↑](#footnote-ref-4)