

# TCPA TIMES



## EXECUTIVE DIRECTOR'S UPDATE

This month saw the advancement of several important market design policies and programs. As you'll read below, the Texas Energy Fund (TEF) is expected to kickstart a host of new dispatchable thermal generation projects. There is growing demand for reliable electricity in ERCOT, and TCPA is proud to have seven projects from TCPA members selected to advance to the due diligence phase.

Those TCPA members selected will continue to cooperate with the Public Utility Commission (PUC) and its partners throughout the remainder of the due diligence process. TCPA shares the goal of the Legislature and the PUC of ensuring the process has integrity and taxpayer funds are safeguarded and used appropriately.

On the market side, the PUC and ERCOT continue to implement market reforms, such as the adoption of a reliability standard for the ERCOT market, development of the Dispatchable Reliability Reserve Service, and establishment of the Performance Credit Mechanism (PCM) design criteria. TEF projects will depend on market revenues to pay back the loans and continue prudent operation of the resources. The market reforms are needed to provide the proper revenue to thermal generation and allow the efficient exit of old, uneconomic resources coupled with the entrance of new thermal resources necessary to meet the new reliability standard and to provide reliable power to energize the continued economic growth in Texas. TCPA wants to help Texas remain open for business.

In adopting the reliability standard, PUC Chairman Thomas Gleeson explained: "As we enhance our grid to support the future of Texas, it's critical we clearly define the standard at which we

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expect the market and system to operate. By establishing a reliability standard for the ERCOT region today, we are setting a strong expectation for the market and charting a clear path to further secure electric reliability.”

TCPA looks forward to continued collaboration with the Legislature and regulators to meet our state’s energy needs for decades to come.

## LEGISLATIVE NEWS

### SENATE BUSINESS & COMMERCE COMMITTEE

On August 27th, the Senate Business & Commerce Committee met to discuss several issues, including the TEF. Connie Corona, PUC Executive Director, provided the Committee with an update about the review process being used to determine the portfolio of projects for the In-ERCOT Loan Program. She noted that after the August 29th Open Meeting (see TEF Update below for more), those projects will undergo a rigorous due diligence phase before finalizing loan agreements. Director Corona later explained that if a project drops out, replacements will be considered based on timing and portfolio needs.

Director Corona also provided an update on the Back Up Power Package Program, explaining that the Commission has finalized a contract with a research entity for developing backup power specifications. Meanwhile, the advisory committee has been meeting since early this year and is developing next steps.

Regarding the Completion Bonus Grants, Director Corona stated that the grants will be paid out over ten years for new facilities that meet performance standards. She noted that applications for the grants will open January 1, 2025. Additionally, Director Corona informed the Committee that the Outside-ERCOT Grant Program draft will be out this fall for public comment with adoption of the rule anticipated in Spring of 2025

TCPA will continue to monitor and provide input as the programs develop to help ensure they are successful in meeting the goals of the Legislature.



# PUBLIC UTILITY COMMISSION NEWS

## TEXAS ENERGY FUND UPDATE

Following the July 27th deadline to apply for the TEF In-ERCOT Generation Loan Program, the PUC revealed that although the program was designed to incentivize no more than 10,000 MW, they had received 72 applications representing 38,379 MW of proposed dispatchable power generation projects in ERCOT.

To develop the portfolio of projects that would best fulfill the Legislature's objectives, Commission Staff worked with Deloitte, the TEF Administrator, to review the applications to determine which projects should proceed to the due diligence stage.

Projects were evaluated based on four criteria: the applicant's experience and strength of financing, and the project's technical and financial attributes, the PUCT said. Commissioners also identified five priorities for the portfolio of projects: diversity among applicant types, diversity in siting location, speed to market, ability to relieve transmission constraints, and diversity of generation resource type.

During the August 29th open meeting, the PUC discussed the list of projects that had been recommended by PUC Staff and Deloitte. These projects represent 9,781 MW in potential new generation, with TCPA members accounting for 3,826 MW of the selected projects.

The Commission then delegated authority to Executive Director Connie Corona to approve or deny any application identified on the approved list and enter into a loan agreement relating to that application, provided that the application undergoes due diligence review to the Executive Director's satisfaction. One of the applications (not TCPA-affiliated) was promptly denied by Director Corona for failing to meet due diligence requirements.

TCPA strongly supports the protection of taxpayer funds and a rigorous due diligence review for the remaining projects on the initial recommendation list. The selected TCPA members look forward to continuing to work with the PUC to bring these projects through the due diligence process to help meet the significant load forecast and support Texas' growing economy. With just over 39% of the total selected projects being TCPA members, it is clear that TCPA members are amongst the most experienced, efficient and prudent generation companies in Texas with proven track records across the country of diligent resource operation.



# PUBLIC UTILITY COMMISSION NEWS

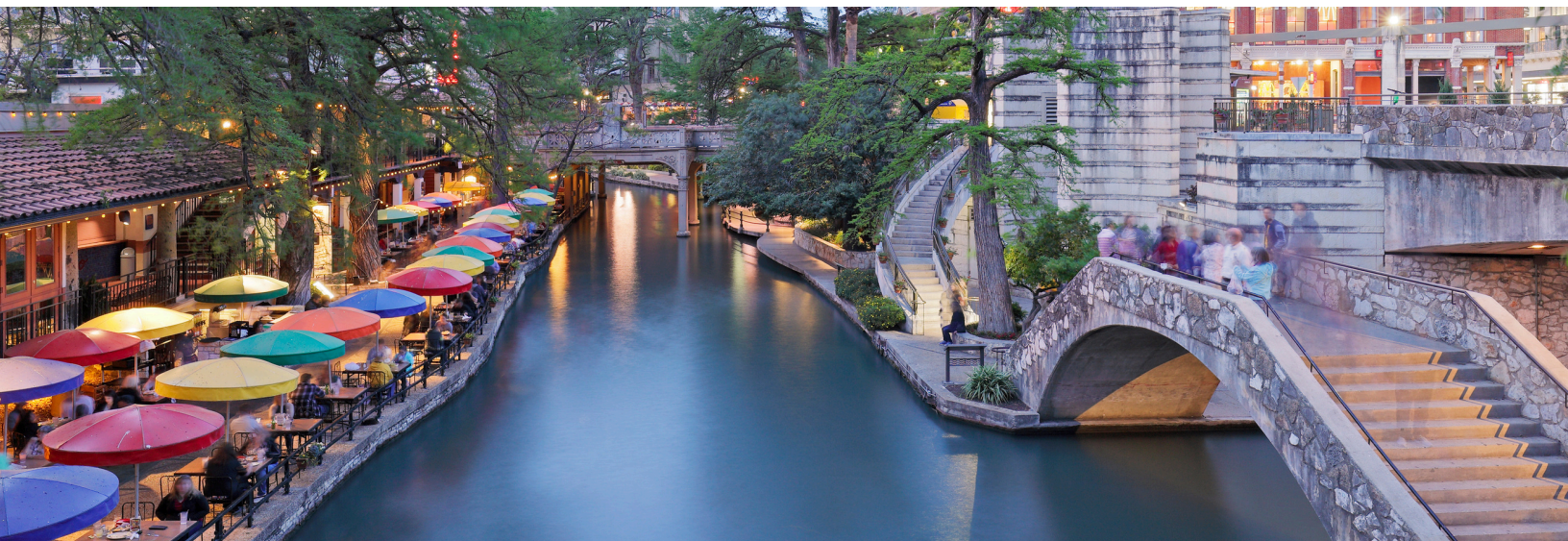
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### RELIABILITY STANDARD UPDATE

For several years, TCPA has advocated for the adoption of a reliability standard for the ERCOT market with the belief that it will be the foundation for policy decisions that can support a market design to meet the rapidly growing generation needs of Texas. TCPA appreciates that the Legislature made the reliability standard a priority through their action in SB3 (87R) and HB 1500 (88R), and thanks the Commission for its work in implementing the standard - a first but critical step for the rapidly evolving ERCOT market.

During their August 29th open meeting, the Commission adopted the proposed 16 Texas Administrative Code (TAC) §25.508, relating to the reliability standard for the ERCOT region. In doing so, the Commission also incorporated changes to the rule proposed by Commissioner Cobos which included the requirement that ERCOT provide the Commission with an explanation of any deficiency, a list of proposed recommendations to market design, and expected system costs of those recommendations should the system fail to meet the reliability standard.

The adopted reliability criteria are thoughtful, common-sense metrics that relate directly to customers' experience of reliability events. The establishment of a process to guide Commission action if there is a deficiency in the meeting the standard is pivotal. This rule is the foundation for policy decisions that can support a market design to meet the electric needs in ERCOT.





# PUBLIC UTILITY COMMISSION NEWS

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### PERFORMANCE CREDIT MECHANISM UPDATE

On August 9th, PUC Staff filed their initial recommendations regarding the PCM design parameters. These were followed on August 21st by the PCM Design Strawman White Paper which included ERCOT and E3's recommended PCM design. Then, PUC Staff filed their final recommendations on August 22nd which made several changes to their original recommendations based on PUC open meeting discussions and ERCOT's Strawman White Paper.

In their final recommendations, PUC Staff noted four ways in which their recommendations differed from ERCOT's:

1. Design Parameter #4 - Metric Used to Determine PC Hours

- Staff Recommendation: Hours with the highest net load
- ERCOT Recommendation: Hours with lowest surplus of total available generating capacity, relative to load

2. Design Parameter #6 - Duration-based Cap for Consecutive PC Hours

- Staff Recommendation: No
- ERCOT Recommendation: Yes

3. Design Parameter #20 - Net Cost Cap Compliance Framework

- Staff Recommendation: Firm \$1B gross cap
- ERCOT Recommendation: Counterfactual of energy-only market equilibrium reserve margin (MERM)

4. Design Parameter #26 - Non-Performance Penalties for PCs Offered but not Cleared in Forward Market

- Staff Recommendation: No penalty
- ERCOT Recommendation: 2% of forward market price

During the August 29th open meeting, the Commission agreed with Staff's recommendations and requested ERCOT and the Independent Market Monitor (IMM) proceed with their cost-benefit analyses. These analyses should be filed with the Commission during the week of November 25th and then discussed by the Commission in November and December open meetings.

TCPA appreciates the work that has gone into this process so far and is pleased to see several of our prior recommendations incorporated into the design parameters.

# PUBLIC UTILITY COMMISSION NEWS

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### VALUE OF LOST LOAD (VOLL) STUDY UPDATE

At the February 16, 2023 Open Meeting, the PUC discussed the need for a VOLL study in order to support the development of a reliability standard for the ERCOT Region. As ERCOT explains, “VOLL represents a proxy for the costs and impacts experienced by customers due to an outage and is an important input to inform the benefits of future investments to improve reliable electric supply.”

Based on the Commission’s request, ERCOT engaged the Brattle Group to conduct the VOLL study. The results of that study were filed at the Commission on August 22nd and recommended that VOLL be set at \$35,685 per MWh, while noting that exclusion of transmission-level customers who are not subject to load shed from the estimate would yield a higher average VOLL of \$61,974/MWh.

At the August 29th Open Meeting, the Commission adopted the \$35,000 per MWh figure. ERCOT staff noted that this figure will not have any immediate impacts on the market (which has an energy cap offer of \$5,000/MWh). Rather, this number will be used for future cost benefit analysis planning models to estimate the cost of unserved energy. As intended, it will also be used to develop the reliability standard.

**Table ES.1: VOLL per Unserved MWh by Customer Class and Duration<sup>10</sup>**

	Residential	Commercial & Industrial		ERCOT-Wide
		Small	Medium/Large	
1 hour	\$3,964	\$666,907	\$22,721	\$35,685
2 hours	\$3,303	\$407,229	\$12,783	\$21,326
4 hours	\$2,039	\$253,454	\$8,064	\$13,340
8 hours	\$1,407	\$195,591	\$6,507	\$10,435
16 hours	\$1,091	\$239,280	\$9,463	\$13,581

Source: Brattle VOLL Study for the ERCOT Region

## ERCOT BOARD OF DIRECTORS MEETING

During the August 20th Board of Directors Meeting, ERCOT President & CEO Pablo Vegas presented a new framework that will allow ERCOT to evaluate changes to the market design relative to the attributes needed to reliably operate the grid. Vegas noted that in addition to reliability, ERCOT’s analysis will focus on resiliency and efficiency of the ERCOT market.

### A Framework for Evaluating Market Design

- As we consider the drivers for investment and the various levers available to us to provide investment signals, we need to think about the full suite of attributes that are needed to reliably operate the grid.
- These attributes create a framework with which market features can be evaluated.
- Development of an evaluation framework has begun, and we expect this to be a future and ongoing topic with the Board.



**Key Takeaway:** It is crucial that we leverage a framework to evaluate both existing attributes and changes to the market design relative to the attributes that are needed to reliably operate the grid.

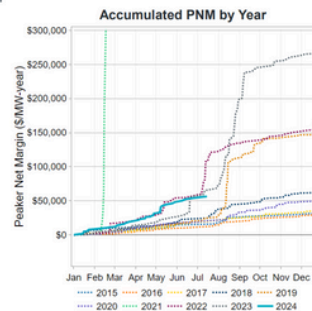
### Key Framework Attributes

Flexibility	• Value resources that can ramp up and down, quickly
Dependability	• Value resources that can achieve instructed dispatch levels for required durations
Availability	• Provide incentives for resource availability when needed, meeting current and future demands
Resiliency	• Provide the grid with tools to manage both local and system wide reliability events
Quality	• Value operational attributes that are important to the ERCOT market, such as carbon free nuclear and inertia
Efficiency	• Design markets to achieve efficient results to benefit consumers and market participants
Location	• Enhance value of locating resources closer to demand

Source: CEO Update, August 20, 2024

David Maggio, Principal, Market Design & Analytics, also provided the Board with an update on thermal generation development in ERCOT. Maggio noted that while development of wind, solar, and batteries has risen rapidly in recent years, gas generation has been relatively flat. This increased reliance on renewables and batteries leaves the grid susceptible to generation “droughts” for extended periods of time, requiring dispatchable thermal generation to fill in these gaps. Another important highlight from the presentation was acknowledging that investment decisions are based on forward-looking market conditions and not hypothetical historical revenues (such as the Peaker Net Margin index).

### Understanding Peaker Net Margin (PNM)



- PNM is a metric used to estimate real-time market energy revenues for a gas-fired peaking plant.
- While useful it does have its limitations:
  - It only provides a historical account of estimated revenues and does not address forward looking market conditions.
  - The calculation assumes perfect performance and foresight (i.e., always running when it’s profitable and never running when it is not).

**Key Takeaway**  
 – PNM has value as a metric but is also has limitations as a single indicator of long-term investment signals.

Source: Thermal Generation Development in ERCOT, August 20, 2024



# ERCOT NEWS

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For the time-being, the TEF, as noted above, appears to be attracting interest in new thermal generation development. Further, the adoption of the reliability standard was highlighted as valuable. Maggio also noted that these positive developments are countered in some ways by the impact of more stringent EPA rules, significant increases in the Cost of New Entry (CONE) a proxy for new gas generation investment costs, and the competition for capital both within the energy sector and with other sectors.

The recognition that all components of the market must work together to meet the reliability Texans expect and deserve is important, and TCPA appreciates that ERCOT is looking at the reliability of different resource types and their capability to perform as part of this equation.

