**PUCT PROJECT NO. 55845**

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| **REVIEW OF ANCILLARY SERVICES (AS) IN THE ERCOT MARKET** | **§**  **§** | **PUBLIC UTILITY COMMISSION**  **OF TEXAS** |

TEXAS COMPETITIVE POWER ADVOCATES’S RESPONSES TO STAFF’S QUESTIONS REGARDING ANCILLARY SERVICES DRAFT STUDY REPORT

Texas Competitive Power Advocates (TCPA)[[1]](#footnote-2) appreciates the opportunity to provide comments in response to Public Utility Commission of Texas (Commission) Staff’s questions regarding ancillary services procurements and their role in grid reliability. Included as Attachment A to these comments is an Executive Summary of TCPA’s comments.

1. **INTRODUCTION**

The adoption of the reliability standard was a critical first step in achieving resource adequacy through competitive market products in ERCOT. A meaningful and effective reliability standard requires a mechanism to send resource adequacy signals to the market. With the design parameters adopted for the Performance Credit Mechanism (PCM), most notably the $1B gross cost cap, there is significant skepticism that the PCM will be able to deliver the resource adequacy intended at its inception. This leaves the suite of ancillary services and energy market design as the remaining tools for the PUC and ERCOT to deliver the resources needed to meet the newly adopted reliability standard. No other resource adequacy tool has been proffered; therefore, the comments to the questions posed by Staff must consider that ancillary services will be a tool to meet the reliability standard and send signals to the market about investment needed in ERCOT to meet future load growth. As seen over the past three years, policy actions have tended to put downward pressure on wholesale electricity market signals with the endorsement of a hard gross annual cost cap on the PCM, reinitiation of the Real-Time Co-optimization (RTC) implementation, the changes to ECRS deployment to remove value from the lone ancillary service product that was delivering a forward price signal, and the continued advocacy to assess cost-effectiveness primarily from the viewpoint of whether consumers are paying more for energy without accounting for the substantial cost increases consumers bear from transmission and delivery cost increases in the regulated portion of their electric bills (e.g., the consumer benefits test). The forward markets on the day the Commission discussed NPRR 1224 to change the deployment of ECRS and implement a price floor consistent with what the market reflected reacted for August 2024, September 2024, Summer 2025, and Summer 2026 almost instantly correlated with the decision at approximately 12:50PM to change the deployment and implement no price floor, precipitously dropping when the decision was announced from the dais. See the graphs below showing these markets on Intercontinental Exchange (ICE) forward markets on July 25, 2024:

August 2024: September 2024:

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Summer 2025: Summer 2026:

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This underscores the importance of every policy decision to the ERCOT market and the investment it needs to meet the reliability standard. Notably, ERCOT recently highlighted to the ERCOT Board the reduction in ERCOT prices year-over-year, noting prices were down 82% compared to last year and highlighting the reduction in forward price curves over the past several months as they project further out into the future, as well as claims regarding RTC’s $1.6B in annual savings.[[2]](#footnote-3) Greater reliability has a cost, and that is a reality that must be factored in to many market design decisions currently under consideration at the PUC, at ERCOT and state leadership. The Texas Energy Fund is kickstarting the investment in gas generation needed to meet reliability no matter the time of day or the weather; however, as an energy-only market that currently only relies on the energy and ancillary service markets in ERCOT to provide revenue to these and other reliable resources, market design choices regarding ancillary services can have material implications for the ability to pay back loans and the ability to economically operate for the physical life of the resource.

With this context in mind, TCPA responds to Staff’s questions below and offers the following comments to ensure the adopted reliability standard is met through the competitive market in the most cost-effective manner. Companies may file supplemental comments with specific thoughts that go beyond the scope of agreement from the full TCPA membership.

1. **RESPONSES TO QUESTIONS**

QUESTION 1: Which of the following is the proper criterion for ERCOT to use to determine

AS procurement quantities: avoiding Watches, avoiding Energy Emergency Alerts, or avoiding load

shed? Please explain your choice.

Those decisions have been made by state leadership, PUC leadership and ERCOT leadership. TCPA observes that the criterion post-Uri has been to avoid Watches, and that is the operating posture with which the control room at ERCOT has been managing the grid since spring 2021. TCPA also observes that public discourse has tended to view Watches, Energy Emergency Alerts, and even conservation requests negatively. In each meeting, committee, subcommittee, work group or board meeting in which questions have been posed about whether the avoidance of Watches is likely to change in terms of operating posture for running the grid, the response has consistently been that it will not change.

Therefore, TCPA recommends that whatever criterion is used to operate the grid, assess reserves, and determine scarcity, that should also be the criterion used to determine ancillary service procurement quantities, demand curve shapes, ORDC/ASDC shapes, and other market design parameters. Whatever policy drives the decisions in the ERCOT control room should be the same for the ERCOT market. The only way in which market outcomes will be the prime solution to resource adequacy and meeting the reliability standard is for the control room actions to be accurately reflected in the market. TCPA does not support quantities that will force the increased use of out-of-market solutions like Reliability Unit Commitments (RUCs), Must Run Alternatives (MRAs), Reliability Must Run (RMR) contracts or other similar methods to be a consistent part of meeting ERCOT’s reliability needs.

QUESTION 2: What are the possible positive and negative impacts of calculating the AS amounts dynamically? Besides implementation costs, are there any important implementation considerations for this suggestion not mentioned in the report?

Procuring larger portions of ancillary services closer to real-time makes those entities contracting forward and trying to hedge their costs less able to do so. TCPA supports making it easier to hedge than more difficult as a means to better protect consumers from cost increases and to ensure resources needed to meet consumer energy needs are available. Therefore, TCPA recommends procuring a minimum threshold that meets the vast majority of expected conditions, allowing entities to reduce their risk by hedging without concern for substantial last-minute procurements. Final procurements should occur five to seven days before the day-ahead market to ensure market participants have an opportunity to adjust their hedges in response to extreme weather forecasted and potential reliability concerns.

Another issue that warrants consideration is that continued focus on squeezing more efficiency out of a market that is deficient in providing signals that investment is needed to meet the reliability standard is likely to succeed in lowering prices that will also result in lower reliability metrics. Any historical methodology used to determine AS amounts fails to acknowledge and account for the market reality that investment decisions are made by looking forward, not backward. The load forecast, the desire for certain resource attributes, and the needs to ensure resource adequacy and an ability to meet the reliability standard in the future are all critical inputs that must be factored into the quantities procured as well as the demand curves and price considerations such as floors or proxy offers. Future forecasts and expectations are more critical to determining future procurements and letting market participants know resource needs coming than what has happened in the past. Market behavior changes based on policy decisions, and new resources take multiple years from inception to commissioning so indications of those needs sooner rather than later will provide greater stability in ERCOT for all market participants, load and generation. It could be useful to employ historical methodology to help establish the minimum procurement quantities but then use probabilistic modeling to update those quantities.

QUESTION 3: What are the possible positive and negative impacts of calculating the

minimum AS amounts using a probabilistic model instead of a statistical approach currently used?

Besides implementation costs, are there any important implementation considerations for this

suggestion not mentioned in the report?

Probability modeling takes a process that is random and uncertain and attempts to figure out what will happen while statistical modeling takes something that has happened and attempts to figure out why it has happened. From the standpoint that ERCOT’s needs in the future are uncertain and the rapidly changing resource mix and load forecast, as well as the makeup of that load, increase the uncertainty for all market participants as well as policymakers, probability modeling may offer more a more robust menu of solution options to drive decision-making by policymakers and market participants to mitigate the uncertainty and ensure the reliability standard is met. The cost of conducting probability modeling may be greater as it is likely more time-intensive than the statistical approach. However, the history of usage and resource mix bears less and less on what will be ERCOT reality in the future so the greater time and cost is likely to produce more actionable and meaningful result .

QUESTION 4: How should other services that support grid reliability but are not procured day

ahead, such as Emergency Response Service and Firm Fuel Supply Service, be taken into

consideration within this review, for example with respect to the proper criterion to determine AS

quantities?

Every component of the ERCOT market must work together to create an overall reliable system. The amount of resources committed to those services and any other type of product ERCOT uses to balance the grid and ensure reliability must be considered in these decisions. If a holistic approach is not taken to the decision-making process for every product and tool within the ERCOT market, there is a substantial risk the components will not work effectively together and may undercut reliability and market signals. In his layout of SB 7 during the 88th Regular Session on the Senate floor, Chairman Schwertner discussed the new ancillary service, DRRS, as “improv[ing] market signals by the addition of a new ancillary service, the dispatchable reliability reserve service, *which targets dollars at dispatchable generators that can stay on for a sustained amount of time* during peak demand. Specifically, this ancillary service *directs ERCOT to determine the quantity of services necessary – i.e. the reliability standard* – to achieve their targeted reliability standard or goal….finally, the bill directs ERCOT to then determine the eligible resources that have a run time of at least four hours and available within two hours after deployment and have the dispatchable flexibility to address inter-hour operational challenges.”[[3]](#footnote-4) It is clear from the layout of the DRRS portion of SB 7, which later became the enacted portion of HB 1500, that legislators intend ancillary services (and DRRS specifically) to not only meet operational issues within ERCOT but also to be a tool to meet the adopted reliability standard. In the same layout, Chairman Schwertner acknowledged “reliability comes at a cost.”[[4]](#footnote-5) It is critical that PUC and ERCOT review ancillary services, including those products not procured day ahead, to ensure the combination of those resource procurements and market signals achieve the reliability standard in ERCOT. Similarly, the criterion must consider the attributes of different resource types and the contributions each make to the overall system reliability, emphasizing those that are dispatchable.

QUESTION 5: How should procurement quantities for Dispatchable Reliability Reserve Service be calculated and incorporated to the annual AS methodology as an ancillary service to support operational reliability?

The premise of the question completely ignores the legislative expectation that DRRS be an ancillary service to support both operational reliability and to meet the reliability standard. The floor layout quoted in the preceding question’s response provides no ambiguity that the author expects DRRS to serve dual purposes in the ERCOT market. In fact, the advocates for DRRS, the Coalition for Dispatchable Reliability Reserve Service, proffered the product as a market alternative to the PCM that would be designed to provide incentive for existing dispatchable resources to remain in the market, to send an investment signal for new resources to build in ERCOT and to address operational challenges on the grid.[[5]](#footnote-6) That coalition of various segments’ market participants advocated at the PUC and at the Legislature the superiority of DRRS to achieve a reliability standard compared to PCM or other options presented to the PUC.[[6]](#footnote-7) That the entities that actively participated in the process regarding market design changes at either the Commission or the Legislature and advocated for DRRS as an alternative to the PCM would now argue that DRRS is a product to only address operational issues but not to also help to meet the reliability standard is indicative that those entities are not serious about trying to address the reliability needs of the ERCOT system. TCPA does support meeting the reliability needs of the ERCOT system, and therefore recommends that procurement quantities, pricing and demand curves for DRRS be evaluated and calculated with an eye toward meeting both operational reliability and long-term reliability market through the market.

QUESTION 6: Are there any other aspects of the filed draft report that the Commission should

consider in developing its final recommendations?

TCPA recommends the final recommendations be developed through the lens of legislative expectation that the Commission and ERCOT will use the energy and ancillary service markets in concert, with limited supplemental reliability services such as the PCM, to meet the adopted reliability standard. Recommendations should take a holistic view of the market and how the ancillary service procurements will fit into the array of other market products and interact under real-time co-optimization, as well as what role those products must serve in meeting the reliability standard and by providing market signals to invest in dispatchable generation as well as to maintain dispatchable generation resources into the future .

The IMM commented on July 15, 2024 that “it is extremely unlikely that an energy-only market can satisfy the one-in-ten reliability standard.”[[7]](#footnote-8) Those comments further outlined the likely need for market decision changes if the energy-only market is not meeting the reliability standard and opined that “the most efficient means to satisfy a reliability standard that exceeds the level of reliability that an energy-only market can provide is likely to involve developing a capacity market.”[[8]](#footnote-9) To be clear, TCPA is not suggesting the development of a capacity market at this time, but merely points out that if a capacity market is not palatable for the ERCOT market then that underscores the importance of a holistic policymaking process and approach to methodology, procurement quantities, demand curves, pricing floors and ceilings, proxy offers and every aspect of the energy market to ensure no stone is unturned in utilizing the tools ERCOT and PUC have currently and in implementation to meet the reliability standard.

1. **CONCLUSION**

TCPA appreciates the work Staff, ERCOT, and the IMM have put into the ancillary services study draft report and appreciates the opportunity to answer Staff’s questions and provide additional comments. We look forward to continuing to work with the PUC, ERCOT, the IMM and other stakeholders in this process to ensure that the reliability standard in ERCOT is met through the various competitive market tools, including the suite of ancillary services, available to policymakers.

Respectfully submitted,

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**ATTACHMENT A: TCPA’s EXECUTIVE SUMMARY – PROJECT 55845**

* Ancillary services will be a tool to meet the reliability standard and to send signals to the market about investment needed in ERCOT to meet future load growth.
* Policy decisions have put downward pressure on prices as highlighted by ERCOT at the October board meeting, noting prices were down 82% compared to last year.
* Decisions on whether ERCOT should be avoiding watches, EEAs or load shed have been made by state leadership and the same criterion should be used to determine AS procurement quantities, demand curve shapes, and other market design parameters.
* AS procurement close to real-time makes it difficult for market participants to mitigate their risk through contracting and hedging. A minimum threshold hold to meet the vast majority of expected conditions should be procured with any additional quantities needed to address extreme weather being procured 5-7 ahead of the DAM.
* Probabilistic modeling is more likely to offer a more robust menu of solutions to address the rapidly changing load profile and resource mix than statistical modeling that seeks to explain why something happened rather than how to address future issues.
* A holistic approach must be taken to market design, considering every product and procurement type and how they fit together to achieve the reliability standard in ERCOT through the competitive market.
* DRRS is a tool to both manage operational reliability as well as to meet the reliability standard and should be viewed and procured with an eye toward it fulfilling both purposes.
* Ancillary service methodology, procurement and demand curves should be viewed through the lens of legislative expectation that energy and ancillary service markets will work in concert to achieve the reliability standard in ERCOT.

1. Shell and NRG have not joined these comments. [↑](#footnote-ref-2)
2. ERCOT Board of Directors Reliability & Markets Committee meeting, October 9, 2024 and ERCOT Board of Directors meeting, October 10, 2024. [↑](#footnote-ref-3)
3. Texas Senate, April 5, 2023 floor comments at 1 hour, 58 minutes through 1 hour, 59 minutes, 32 seconds. *(emphasis added).* [↑](#footnote-ref-4)
4. Id. [↑](#footnote-ref-5)
5. Project 52373, Review of Wholesale Electric Market Design, The Coalition for Dispatchable Reliability Reserve Service’s Comments, filed December 14, 2022. Bates White, Assessment of ERCOT Market Reform Alternatives, February 22, 2023. [↑](#footnote-ref-6)
6. Id. [↑](#footnote-ref-7)
7. Project 54584, Reliability Standard for the ERCOT Market, Potomac Economics’ Comments on Proposal for Publication, July 15, 2024 at 2. [↑](#footnote-ref-8)
8. Id at 8. [↑](#footnote-ref-9)