May 23, 2025

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Feedback and Questions on Residential Demand Response Design Elements and Options

Texas Competitive Power Advocates ("TCPA")[1] appreciates the opportunity to provide feedback and questions on the Residential Demand Response ("DR") Program design proposed by ERCOT Staff. Given the load growth projections for the state, TCPA understands the interest in load flexibility, including residential DR, and could be supportive of a program that works holistically with other ERCOT programs to help deliver a reliable and resilient electric grid to Texans. TCPA maintains this shared goal is best achieved through the competitive market as opposed to out-of-market actions.

As such, TCPA is concerned that the proposed design of the residential DR program is an out-of-market action that could negatively impact the reliability of the grid. At the Legislature's direction, the state has made significant efforts to add much needed thermal dispatchable generation to the grid and ensure there is ample supply of power to meet an ever-growing demand. For example, the state has made it a priority through programs such as the Texas Energy Fund

[1] 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 member companies participating in these comments include: Calpine, Cogentrix, Constellation, EDF Trading North America, Hull Street Energy, Liberty Power Innovations, LS Power, Luminant (a.k.a. Vistra), Rockland Capital, Shell Energy North America, Tenaska, and WattBridge. Member company NRG will be filing separate comments.

("TEF") to incentivize new dispatchable gas generation. To be successful, the TEF requires price signals that provide investors with confidence that there will be sufficient revenues in the market to repay the loans and operating expenses. Yet, we have already seen some potential projects withdraw from the TEF citing concerns about the viability of new gas generation in ERCOT.

TCPA is concerned that the DR program, as proposed, would negatively impact the competitive market and, in turn, reliability. The current energy-only market design in ERCOT depends entirely on price formation, particularly during the highest net load hours. As proposed, the DR program is an out-of-market action that would result in inefficient market price formation during this critical time – negatively impacting market signals – and shift it instead to capacity payments for DR at a price level up to three and a half times higher than prices paid to any other resource in the competitive market. The resulting price suppression would likely work against the objectives of the TEF and other programs aimed at increasing reliability, potentially leading to the loss of investment in new dispatchable generation and even the potential retirement of existing assets.

TCPA does not believe that is the goal of the proposed DR program and would like to pose some questions for consideration by ERCOT and stakeholders to ensure the program ultimately implemented is a complement to the efforts of the Legislature, the Public Utility Commission (PUC), and ERCOT in providing a more reliable and stable grid and competitive market for critical generation resources. As such, ERCOT may wish to consider a limited pilot program first to better assess its impacts on the wholesale market and harmonize the program with other ERCOT initiatives. This could also inform the appropriate size and scope of the program and other considerations such as whether its impacts should be included in the Reliability Deployment Price Adder ("RDPA"). Further, ERCOT may wish to further consider how the residential DR program is designed relative to other out-of market programs and in-market ancillary services (see attached chart).

Again, TCPA appreciates ERCOT's efforts to solicit and incorporate stakeholder feedback in the development of this program. TCPA looks forward to working with ERCOT and other stakeholders and submits the following questions for ERCOT's consideration in the design of the program.

<u>Questions to Consider</u>

1. Has ERCOT considered the impact this out-of-market action will have on the wholesale market and how to mitigate price suppression so that it does not interfere with other policy priorities, such as attracting new and retaining existing dispatchable generation resources? If so, can ERCOT share that analysis?
2. Specifically, the residential DR program design targets the times when TEF-supported generation will need to make revenues to repay their state-backed loans. Has ERCOT analyzed the potential impact of the DR program on the financial viability of the TEF resources and/or the potential for retirement of existing dispatchable resources still needed for grid reliability?
3. How does ERCOT envision this program will be incorporated into the reliability standard study? Has ERCOT done any analysis of the impacts on long term reliability?
4. Why has ERCOT bypassed the use of market-based signals to incentivize residential DR with its proposal?

5. How did ERCOT calculate CONE and why is that (or Peaker Net Margin) appropriate for a load resource that does not need to cover costs of new entry into the market?
6. Whose responsibility is it to verify that a participant is not participating in any other DSP or ERCOT program?
7. Should there be a qualification check or process in place to avoid "gaming" the program (e.g., by using home backup batteries instead of providing true DR)?
8. Like ERS and utility management programs, how will the DR program's impact be included in RDPA?
9. What is the maximum value that ERCOT would pay to residential DR customers on a $/MWh basis? Is that same price signal available to other resources, including loads in SCED and traditional generation resources? If not, why not?
10. What is the likely target size of the program? e.g., 500 MW?
11. Currently there is $5,000/MWh incentive for all types of resources in the market to provide MWs during net load scarcity. This proposal currently creates incentives for REPs to create residential DR programs to respond during scarcity. Can ERCOT share more detail on how they arrived at an *additional* $17,500/MW incentive for just the residential DR program (in addition to the avoided costs of energy)?
12. What is the policy rationale for providing a higher incentive to load resources with no obligation and compliance than generation resources providing similar MWs with both a financial obligation and compliance risks (up to $22,500/MWh for loads versus $5,000/MWh for generation)?

Respectfully,

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Executive Director

Attached: Comparison of DR Program vs. Other Programs & AS

Proposed Residential DR Program vs. Other Out-of-Market Programs & In-Market Ancillary Services Comparison

	Ancillary Services (In-Market)					Out-of-Market Programs		
Attributes	**REG-UP**	**REG-DOWN**	**RRS**	**NON-SPIN**	**ECRS**	**ERS**	**TDU Load Mgmt Programs**	**Resi. Demand Response**
Open to all resources	✓	✓	✓	✓	✓	**X**	**X**	**X** Only open to residential loads
Competitively Procured in transparent market	✓	✓	✓	✓	✓	✓	**X**	**X** Residential loads make no commitments in day-ahead market
Obligation to perform in real time	✓	✓	✓	✓	✓	~	~	**X** Residential loads have no real-time obligations
Procurement of service known in advance, enabling other market participants to incorporate the procurement into their own operational plans	✓	✓	✓	✓	✓	✓	✓	**X** Settled seasonally after looking backward at demand response performance
Financial risk	✓	✓	✓	✓	✓	✓	**X**	**X** Residential loads have no risk because they promise nothing
Payment cap	✓ $5,000	✓ $5,000	✓ $5,000	✓ $5,000	✓ $5,000	~	✓	**X** Payment arbitrarily set; currently **~17,500/MWh**