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PUC PROJECT NO. 58555

**ERCOT ANCILLARY AND
RELIABILITY SERVICES COST
ALLOCATION STUDY PURSUANT TO
PURA §39.1593**

**§ PUBLIC UTILITY COMMISSION
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§ OF TEXAS
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TCPA’S RESPONSES TO STAFF QUESTIONS FOR COMMENT

Texas Competitive Power Advocates (“TCPA”) appreciates the opportunity to provide comments in response to Commission Staff’s questions filed on September 8, 2026,¹ which were based on ERCOT’s Report of Ancillary and Reliability Services Cost Allocation Study filed on August 31, 2026.² TCPA supports the Report’s conclusions and encourages the Commission to preserve the current Load Ratio Share (“LRS”) framework as loads are the primary beneficiary of the procurement and deployment of ancillary and reliability services.

The study compared LRS to three alternative methods. It concluded the alternative methods would reallocate costs amongst market participants, but “that none of the three alternative methods would be expected to result in a net savings for electricity consumers in the ERCOT Region compared to [LRS].”³ Any structural allocation change should be supported by evidence that it better reflects controllable cost causation, produces net consumer benefits, and does not undermine competitive price signals, forward contracting, resource economics, or dispatchable resource retention and investment. The Commission should prioritize reforms that reduce the underlying need for, quantity of, or cost of ancillary and reliability services rather than reallocating the same costs among Market Participants.

¹ Public Workshop Agenda and Questions, ERCOT Ancillary and Reliability Services Cost Allocation Study Pursuant to PURA §39.1593 (September 8, 2026), *available at* https://interchange.puc.texas.gov/Documents/58555_25_1681007.PDF

² Memo from ERCOT Staff and ERCOT Report on Ancillary and Reliability Services Cost Allocation Study (August 31, 2026), *available at* https://interchange.puc.texas.gov/Documents/58555_24_1678960.PDF

³ *Ibid.*, 3

RESPONSE TO STAFF QUESTIONS ON ALTERNATIVE COST ALLOCATION

METHODS

Based on the results presented in ERCOT's report:

1) What are the pros and cons of each method?

TCPA RESPONSE:

TCPA agrees with the report's central finding: all three alternatives primarily reallocate costs among Market Participants, but reallocation does not reduce the quantity of ancillary or reliability services procured or the price paid. A change to the cost allocation method should be supported by evidence of net benefits after accounting for effects on offers, contracts, retail risk premiums, collateral, maintenance, financing, and investment. Ancillary and reliability services protect the system against a range of changing and often unpredictable conditions, and because load is the primary beneficiary of the procurement and deployment of these services, the current LRS methodology remains the appropriate baseline.

Method A. Method A attempts to associate costs with high-risk seasonal periods, but its semiannual settlement structure is a significant disadvantage. Large, infrequent charges are difficult for load-serving entities and retail electric providers to forecast, hedge, and incorporate into retail pricing. This concern is illustrated by the large unexpected costs associated with Winter Storm Uri and the introduction of ERCOT Contingency Reserve Service ("ECRS") in 2023.

Method B. Method B preserves daily settlement and applies service-specific operational risk drivers across all hours, avoiding the most significant settlement and credit concerns associated with Method A. A broader and more frequent allocation, however, does not by itself establish more accurate cost causation or more efficient behavior. ERCOT's analysis indicates that these charges also would function primarily as fixed costs, with limited ability for a resource to reduce its exposure through operational changes. Method B therefore presents many of the same long-term retirement and investment concerns as Method A without demonstrating net consumer savings.

Method C. Method C may create an incentive for Qualified Scheduling Entities ("QSEs") to contract for dispatchable capacity, but the incentive is disconnected from the quantity of ancillary and reliability services procured. The preliminary results indicate meaningful exposure for generation-owning and integrated portfolios, and the method could duplicate existing RUC capacity-short incentives, increase daily credit and liquidity volatility, encourage over-contracting or inefficient self-

commitment, and cause allocated costs to be embedded in energy, bilateral, and retail prices. TCPA therefore does not support any of the three alternative methods.

2) Are there any potential adverse effects to the market from any of these methods?

TCPA RESPONSE:

Yes. Methods A and B would impose substantial new fixed costs on generation without creating a meaningful short-term operational response. Those costs could weaken resource economics, accelerate retirement decisions, delay investment, and ultimately increase costs to consumers. They also could distort competitive price signals and forward contracting by charging resources for systemwide reliability needs that they cannot reasonably control. Method A presents the additional concern of a long settlement and true-up period, with corresponding collateral and default exposure.

Method C could encourage inefficient overcommitment during periods when the system is well supplied and could push QSEs toward an opaque bilateral capacity market without reducing the underlying need for ancillary or reliability services. None of the three methods demonstrated net consumer savings sufficient to justify these risks.

ERCOT's report notes that Method C has the potential to incentivize more QSEs to contract with dispatchable generation to avoid incurring costs from unbalanced portfolios, although the potential for this is limited given the current excess of supply.

3) Are there aspects of Method C that could be refined to enhance this incentive?

TCPA RESPONSE:

TCPA does not support Method C and does not recommend refining it to increase the proposed contracting incentive. Contracting with dispatchable generation should occur when market conditions make that efficient. During periods of ample supply, purchasing energy from the ERCOT market may be the least-cost option, and Method C could instead encourage inefficient overcommitment when additional capacity is not needed.

Method C also lacks a direct connection to the quantity of ancillary or reliability services procured. It would move activity into an opaque bilateral capacity market outside ERCOT's visibility without demonstrating lower total costs. The current LRS methodology should remain in place.

4) Is this method worth reconsidering if future conditions result in more capacity-short periods?

TCPA RESPONSE:

No. The workshop did not identify evidence that Method C would produce efficient behavior if capacity-short periods became more frequent. The existing RUC capacity-short settlement, on which Method C is based, has not produced the asserted contracting response. More frequent capacity-short conditions also could increase the risk of inefficient overcommitment and opaque bilateral trading without reducing the underlying need for ancillary or reliability services.

A future product-specific allocation may be evaluated if the Commission first identifies a distinct reliability risk, controllable cost causation, and demonstrated net consumer benefits. That possibility does not support reopening ancillary service allocation generally or displacing the current LRS framework.

**RESPONSE TO STAFF QUESTIONS ON IDEAS FOR REDUCING TOTAL ANCILLARY
AND RELIABILITY SERVICE COSTS**

5) How would you rank the identified ideas, with the highest rank being the idea most likely to result in a favorable ratio of net consumer savings to implementation cost and timeline?

TCPA RESPONSE:

TCPA does not recommend ranking the three ideas on the current record because ERCOT has not established that any of them would reduce ancillary or reliability service procurement.

6) What other market changes may potentially reduce AS and RS requirements?

TCPA RESPONSE:

The Commission should focus on measures that demonstrably reduce procurement quantities or prices while preserving reliability and economic efficiency. Real-time Co-optimization Plus Batteries (“RTC+B”) and the growth of battery participation have already produced substantial reductions in ancillary service prices and total procurement costs. Before pursuing additional reforms,

ERCOT should identify the specific reliability risk addressed by each service and demonstrate how a proposed change would reduce the quantity procured.

TCPA supports continued evaluation of procurement criteria, including the six-hour look-ahead and replenishment requirements for Responsive Reserve Service (“RRS”) and Regulation, as potential drivers of quantities and costs. ERCOT also should distinguish reserves procured for uncertainty from reserves procured for other operational needs so that reductions in uncertainty can translate into appropriate procurement reductions. Any changes must remain tied to defined reliability objectives and should not increase reliance on Reliability Unit Commitment (“RUC”) or other out-of-market commitments that suppress competitive price signals.

RESPONSE TO STAFF QUESTIONS ON THE EFFECT OF REAL-TIME CO-OPTIMIZATION PLUS BATTERIES

7) Would additional analysis of Ancillary Service (“AS”) cost allocation following RTC+B be valuable?

TCPA RESPONSE:

No. TCPA does not recommend additional analysis solely to revisit AS cost allocation following RTC+B. RTC+B reduces the opportunity-cost component of AS procurement by co-optimizing energy and ancillary services closer to real time, while increased battery participation has expanded the supply of AS. Those developments reduce the size of the cost pool but do not change the conclusion that reallocation alone does not create net consumer savings.

If the Commission nevertheless continues the allocation inquiry, any further analysis should use post-RTC+B data rather than relying on 2024-2025 conditions. That analysis should not delay the conclusion supported by the present record that the current LRS methodology remains appropriate.

8) Would we expect any conclusions in this study to change now that Ancillary Services are co-optimized with energy in Real-Time? If so, how?

TCPA RESPONSE:

No. RTC+B has made procurement more efficient and has helped reduce the total cost of ancillary services, but it does not change the study’s central cost-allocation conclusion. Reallocating

costs among Market Participants does not reduce the quantity of ancillary or reliability services procured, or the price paid, and load remains the primary beneficiary of those services. RTC+B therefore does not provide a basis for changing the current LRS framework.

**RESPONSE TO STAFF QUESTIONS ON DISPATCHABLE RELIABILITY RESERVE
SERVICE (“DRRS”)**

9) When considering cost allocation methods for this new service, what factors are important to keep in mind?

TCPA RESPONSE:

The most important factor is predictability. ERCOT should provide advance estimates of expected DRRS procurement quantities and explain the methodology used to determine them. Load-serving entities and retail electric providers need that information to forecast costs and to hedge or self-arrange DRRS, avoiding the sudden and difficult-to-recover costs experienced when ECRS was introduced in 2023.

DRRS is intended to address a longer-horizon net-load forecast and commitment risk than Non-Spin. Because that risk reflects generally unpredictable events such as forced outages and unanticipated changes in load, wind, and solar output, TCPA supports the current LRS approach for allocating DRRS costs. The product should be clearly defined, competitively procured, and coordinated with ERCOT’s other ancillary services so that Market Participants can understand and manage their exposure.

10) If DRRS were implemented to support resource adequacy (i.e., DRRS+), should costs associated with DRRS and DRRS+ be allocated differently?

TCPA RESPONSE:

Yes. Operational DRRS and any future DRRS+ construct would serve different purposes and should not automatically use the same cost allocation.

Operational DRRS is an ancillary service intended to address a longer-horizon net-load forecast and commitment risk. TCPA supports allocating those costs through the current LRS

framework because the events that create the need for the service - including forced outages and unanticipated changes in load, wind, and solar output - are generally unpredictable.

DRRS+ would be a separate resource-adequacy mechanism, not an ordinary ancillary service. TCPA has ongoing concerns with the current market structure's ability to resolve the long-term resource adequacy problem, particularly during the winter season. TCPA anticipates this issue will be revisited during the reliability standard assessment and looks forward to discussing how to allocate those costs at the appropriate time.

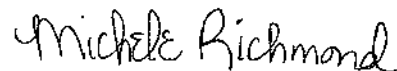
While TCPA agrees that the allocation of any future DRRS+ construct should be considered when the Commission evaluates a defined resource-adequacy design, TCPA contends that the potential magnitude of a future cost pool does not itself establish cost causation or justify shifting costs to generation or particular contractual arrangements.

CONCLUSION

TCPA appreciates the opportunity to comment. The current LRS methodology should remain in place because the study did not identify net consumer savings from the alternative methods. The Commission should focus on measures that demonstrably reduce ancillary and reliability service procurement without weakening reliability or competitive price signals. RTC+B and battery participation have already reduced ancillary service costs and do not change the allocation conclusion. DRRS procurement should be predictable and remain allocated through LRS, while any future DRRS+ proposal should be evaluated separately as a resource-adequacy mechanism.

Dated: September 30, 2026

Respectfully submitted,

A handwritten signature in black ink that reads "Michele Richmond". The signature is written in a cursive, flowing style.

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**EXECUTIVE SUMMARY OF TEXAS COMPETITIVE POWER ADVOCATES
COMMENTS**

- The Commission should retain the current LRS framework. ERCOT's study found that the alternative methods would shift costs among Market Participants without producing net consumer savings, while load remains the primary beneficiary of ancillary and reliability services.
- The Commission should not adopt Methods A, B, or C. Method A creates large seasonal charges and credit exposure; Method B shifts largely fixed costs to generation without producing a meaningful operational response; and Method C could encourage inefficient overcommitment and opaque bilateral contracting.
- The proposed firming, forecasting, or reclassification concepts should not be ranked or implemented unless ERCOT first demonstrates how they would reduce procurement and deliver net benefits to consumers. Any allocation change also should avoid weakening competitive price signals, forward contracting, or investment in dispatchable generation.
- The Commission should focus on reducing the underlying need for, quantity of, or price of ancillary and reliability services. ERCOT should review procurement criteria, including look-ahead and replenishment requirements, while avoiding greater reliance on RUC and other out-of-market actions.
- RTC+B and increased battery participation have already reduced ancillary-service costs. Those developments reduce the cost pool but do not change the conclusion that reallocation alone does not create consumer savings.
- DRRS procurement should be predictable. ERCOT should provide advance estimates and explain its procurement methodology so load-serving entities and retail electric providers can forecast, hedge, or self-arrange their exposure. Operational DRRS costs should remain allocated through LRS.
- Any future DRRS+ proposal should be treated as a separate resource-adequacy mechanism. Its design and cost allocation should be considered only after the reliability need, program structure, beneficiaries, and market effects are defined. The potential size of the program alone does not justify shifting costs to generation or particular contractual arrangements.