***Comments of Brazos Electric Power Cooperative, Inc. and Rayburn Country Electric Cooperative, Inc. on ORDC Options for Change***

***01.04.16***

Brazos Electric Power Cooperative, Inc. and Rayburn Country Electric Cooperative, Inc. (collectively, the “Co-ops”) appreciate the opportunity to review and comment on the functionality of the Operating Reserve Demand Curve (ORDC) in the ERCOT market, and to provide feedback on the options proposed by ERCOT stakeholders to address occasional events of perceived shortcomings of the current ORDC real-time price adder. The Co-ops are concerned about changing ORDC, at this time, as proposed in the various options for a number of reasons, and, therefore, provides these comments. The Co-ops’ position can be summarized as follows:

1. The Co-ops are generally concerned regarding all suggested options for changing ORDC due to lack of reliability impact evaluation, including sufficient analysis supporting a reliability need for changing the ORDC, lack of analysis for all options proposed by stakeholders, and potentially high costs. The Co-ops, therefore, request further analysis and stakeholder participation before a decision is made to change the ORDC, and before any option is selected to change it.
2. The Co-ops are specifically opposed to implementing Options 2, 6, 7, 8, 9 and 10 at this time, because these options could result in drastic changes to the market and power costs without any demonstrable reliability benefit.

**1. General Concerns about ORDC Changes**

The Co-ops’ top concern is the rushed manner in which this review is being completed, considering both the importance of the ORDC adder, in the ERCOT market, and the potential implications for unintended consequences, should changes to the ORDC be made without a complete record. The limited timeline assigned for this review brings another level of uncertainty, as stakeholders have not been able to perform a complete, thorough analysis of whether the issues raised in Commissioner Anderson’s October 7, 2015 Memorandum represent a threat to ERCOT reliability, or some other dynamic, and how to best amend the ORDC, if a change is warranted. The Co-op’s concerns are detailed below.

1. **Lack of Analysis**

In ERCOT stakeholder discussions to date, there has been no review or analysis conducted to demonstrate which ORDC parameters, if any, need to be adjusted. Rather, analysis has only been performed on what the relative price impacts might be of the various changes proposed by stakeholders. The ERCOT analysis provided to stakeholders, along with the backcast tool, was helpful to see the marginal difference between in LMPs and PNM for each option proposed, but it did not show how each option would affect a market participant’s individual portfolio. There were also many assumptions that went into the backcast tool that greatly impact the results. ERCOT stakeholders also do not know, with any degree of certainty, which ORDC parameter should change, if any, and why. For example, August 13, 2015 was a market day selected to be studied in which ERCOT found that it was not lacking responsive reserve service (RRS) at all. In fact, ERCOT had an abundance of RRS. What ERCOT was actually lacking on that day was physical responsive capability (PRC). This day presented was only one scenario among many possibilities, but serves to point out that ORDC is working as intended. Consequently, how does ERCOT or an individual ERCOT stakeholder come up with successful solutions to fix a problem, when it is not yet clear what the problem is, or if a problem in fact exists? While some of the proposals may have some merit, more time to study the basic issues is clearly warranted.

1. **No Connection to Reliability**

The Co-ops fundamentally believe that any changes to the ORDC intended to address reliability concerns described in the Supply Analysis Working Group whitepaper (“A Review of ORDC Options”) should be the result of a thorough review from ERCOT or other appropriate entity. Currently, the exact reliability issue has not been identified and none of the proposed options clearly address reliability concerns. Such a review is necessary to ensure that an unbiased view of what, or if, there is a specific issue of concern, regarding the current design of the ORDC, the use of offline resources or the triggering of Energy Emergency Alerts events. Implementing any changes without conducting such a review will likely result in unintended consequences. The ERCOT market is simply too important to the Texas economy to experiment with changes, without a full understanding of the market impacts. The Co-ops, therefore, request that prior to moving forward with any attempts to make changes to the ORDC, that ERCOT or other suitable entity conduct a root cause analysis assessing whether or not the ERCOT market has a physical electric service reliability issue that needs to be addressed, along with recommending sound unbiased solutions.

1. **Lack of Time for Proper Stakeholder Involvement**

As market participants committed to the ERCOT stakeholder process, the Co-ops submit that stakeholders must have ample opportunity to fully vet any proposed changes to the ORDC, and why they are necessary. This means providing time for comments, reply comments, analysis, meetings and other tools to allow for a full vetting of all issues and options. The requested comments provide only one limited opportunity to respond with no opportunity to improve and refine concepts over time.

1. **High Cost**

The Co-ops have serious concerns over the true market impact and costs that will occur if some of the above options were to be implemented and the resulting harm to the Texas economy. Based on very preliminary analysis, the Co-ops have found that many of the options could significantly increase cost to load serving entities (LSEs). Further studies will also be needed to determine projected costs with more certainty and to compare those costs to expected reliability benefits.

**2. Concerns About Specific Options**

Given the lack of time to fully identify whether or not a true reliability problem exists, and the lack of time to vet the options proposed by ERCOT stakeholders, the Co-ops are opposed to amending the functionality of the ORDC by using *any* of the options proposed by stakeholders without further review. However, the Co-ops have particular objections to Options 2, 6, 7, 8, 9, and 10, as follows:

**Options 6, 7, 8, 9, and 10 propose some combination of changes involving increasing VOLL, increasing the amount of RRS and/or PRC procured, with a corresponding change in the value of “x”. The Co-ops are opposed to changing these values for the following reasons:**

**VOLL** – Several options include changing VOLL. Any increase to the VOLL will ultimately increase costs for end users and lead to more volatility. VOLL is supposed to represent the true costs of not serving load, not an experimental value to raise the ORDC adder. $12,000 and $18,000, as noted in the proposals above, appear to be arbitrary values selected to arrive at specific pricing outcomes (lowering the hockey stick curve and increasing the frequency of ORDC price-spikes), that are not tied to a deficiency risk in physical electric service reliability.

**Increasing minimum RRS and/or PRC requirements, and changing the value of “X”** – Prices will increase significantly, and sooner, due to the ORDC being in place, at a higher level of reserve sufficiency, perhaps higher than a true reliability event requires. Furthermore, options suggesting an increase to the minimum amount of RRS, appear to be in direct conflict with the recently announced changes to 2016 ERCOT Ancillary Services Methodology. For 2016, ERCOT proposed and stakeholders endorsed a minimum standard RRS procurement of 1,375 MW for on peak hours and zero for off peak hours. Several options require almost double the amount of RRS and represent a complete change from the current purpose of RRS to provide frequency response and capacity in the event of a unit trip.

**Option 2. Add ORDC to the DAM. The ORDC curve would be used as the demand curve for AS procurement and pricing instead of today’s inelastic procurement.**

A DAM with ORDC, and without real-time co-optimization could force a must run of generation in real-time that may not be economic. This option could cause an even greater lack of DAM participation due to withholding. Scarcity pricing should be based on operational shortfalls and reliability instances, not on economic resource withholding by those choosing not to participate the in the DAM. Credit requirements would potentially increase significantly.

1. **Conclusion**

In conclusion, the Co-ops appreciate this opportunity to submit these comments on proposed changes to the ORDC adder. As detailed above, the Co-ops have not been presented with any reliability issues that would warrant a change to the ORDC adder, at this time. The Co-ops feel strongly that before we can responsibly move forward, we must have thorough analysis on the topics mentioned above and additional stakeholder participation and discussion with ERCOT and any other appropriate entities, which leads to clearly identifying issues of concern, if any, before any options to change ORDC are selected.