|  |  |  |  |
| --- | --- | --- | --- |
| NPRR Number | [1120](https://www.ercot.com/mktrules/issues/NPRR1120) | NPRR Title | Create Firm Fuel Supply Service |
|  |  |
| Date | February 7, 2022 |
|  |  |
| Submitter’s Information |
| Name | Carrie Bivens |
| E-mail Address | cbivens@potomaceconomics.com |
| Company | Potomac Economics, Independent Market Monitor (IMM) |
| Phone Number | 512-248-6678 |
| Cell Number |  |
| Market Segment | Not applicable |

|  |
| --- |
| Comments |

The IMM submits these comments to raise awareness of implementation decisions regarding Nodal Protocol Revision Request (NPRR) 1120 that may result in inefficiency with regard to the new Firm Fuel Supply Service (FFSS) product this NPRR establishes. We appreciate that the direction from the Commission is to move as expeditiously as possible to implement a firm fuel product, and that direction narrows certain options. Stakeholders should consider improvements in the current or future implementations.

First, procuring the FFSS product via a request for proposal (RFP)/pay-as-bid process instead of a uniform clearing-price auction is economically inefficient. Pay-as-bid markets are well known to produce inefficient outcomes as suppliers seek to estimate the highest bid that would be accepted by the buyer, rather than a strategy of bidding based on their costs as occurs with a uniform clearing auction. The bidding behavior that pay-as-bid markets elicit do not result in the most efficient outcomes, either from a total cost or resource allocation perspective. An auction with a well-formed demand curve would minimize cost of procurement overall and provide built-in cost controls and mitigation of inefficient bidding behavior by both pivotal and non-pivotal suppliers. The IMM recommends that stakeholders utilize lessons learned in the Emergency Response Service (ERS) program, which was originally implemented with a pay-as-bid process and transitioned to a uniform clearing-price auction upon implementation of NPRR564, Thirty-Minute Emergency Response Service (ERS) and Other ERS Revisions, in 2014, and implement a uniform clearing-price auction for FFSS.

Second, products should be designed with the reliability outcome in mind, rather than targeting a particular fuel type. A suitable definition for a Firm Fuel Supply Service Resource (FFSSR) might be: "Any Resource that can operate for at least 72 hours during a disruption of the bulk natural gas delivery system." While the NPRR does not state that only gas-fired Resources with on-site fuel storage can participate, the implication of much of the Protocol language is that it is foreseen that there will be a switching of fuel source involved. However, any Resource that can operate continuously during natural gas curtailments contributes to reliability during that timeframe and should be eligible to offer to provide this service.

Third, if the service is defined narrowly such that only gas-fired Resources with on-site fuel storage can participate, then pricing changes should be contemplated. The IMM recommends removing the High Sustained Limits (HSLs) of the deployed Resources from the Operating Reserve Demand Curve (ORDC) calculation in that case. This preserves appropriate scarcity pricing for the rest of the On-Line Resources that are operating during the natural gas curtailment, to incentivize their continued operation during that time. In the IMM’s opinion, FFSSR deployment is not analogous to a Reliability Unit Commitment (RUC) instruction and FFSSRs during FFSS deployment should not receive one. FFSS is an On-Line service for Generation Resources, therefore clawback and adjustments via the Real-Time Reliability Deployment Price Adder are not appropriate.

Lastly, penalties for failures that occur due to non-fuel related reasons should be smaller than for failures that occur due to fuel-related reasons, as FFSS is not a general capacity service; instead it is targeted for natural gas curtailment events. The IMM recommends 15 days of standby payments for that category, rather than 90 days as proposed in the NPRR. It is imperative to balance meaningful penalties with not creating excessive risks of providing the service. A service that is perceived as very risky to provide will attract higher offers that price in that risk, resulting in higher costs to consumers.

The IMM appreciates the opportunity to weigh in on this important topic.

|  |
| --- |
| Revised Cover Page Language |

None.

|  |
| --- |
| Revised Proposed Protocol Language |

None.