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| NPRR Number | [1092](http://www.ercot.com/mktrules/issues/NPRR1092) | NPRR Title | Reduce RUC Offer Floor and Remove RUC Opt-Out Provision |
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| Date | | March 28, 2022 | |
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| Market Segment | | Independent Power Marketer (IPM) | |

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| Comments |

Shell Energy appreciates the support from Commissioners, Commission Staff, the Independent Market Monitor (IMM), and stakeholders in deliberating the impacts of this critical change as well as the robust discussion during the workshop on alternative solutions to reduce the need for Reliability Unit Commitment (RUC). We submit these comments to provide additional clarity to the data referenced in the comments filed on March 24th by Joint Commenter and to clarify why we are unable to support their recommendation.

The Quick Start Generation Resources (QSGRs) listed in the March 24th Joint Commenter’s filing are not Shell-owned but are units for which Shell Energy provides Qualified Scheduling Entity (QSE) service. Shell Energy is bound by Energy Management Agreement (EMA) to submit the Energy Offer Curve (EOC) provided by the Resource Entity. The Energy Offer Curve submitted for these Resources depends on the contract terms and may not reflect operating strategies and Energy Offer Curves for QSGRs over which Shell has decision making authority. QSGRs bring their Resources On-Line in five to ten minutes based on the five-minute price signals to address Real-Time reliability issues. However, due to the short duration of most of these reliability issues, the duration when QSGRs sets price and could recover their cost of starting the units is very short. This is a well know issue which is why the Federal Energy Regulatory Commission (FERC) has directed jurisdictional regional transmission organizations (RTOs) / independent system operators (ISOs) to implement fast start pricing. This effectively includes the Startup Cost in Energy Offer Curve to ensure that prices reflect the need for commitment when these Resources are dispatched and provide cost recovery for meeting the systems reliability needs.

Shell Energy continues to provide PPA and tolling agreements to Independent Power Producers (IPPs) based on current and expected energy and Ancillary Service revenue that the IPPs in turn use to finance new investments. Also, as part of Shell Energy’s energy transition plan, Shell is evaluating thermal Generation Resource investment to firm renewable energy, and strongly believes QSGRs continue to play an integral role in the energy transition.  We strongly believe that pricing these units out by setting the RUC offer floor below fast-start Energy Offer Curves which includes Startup Cost reduces the incentive for investing in QSGRs. This is especially true with ERCOT’s new conservative operation philosophy. QSGRs play a key role in reliably integrating renewables and hence prices should reflect the market value of the reliability they provide if the market wants to incent investment in this technology.

Shell Energy supports the Commission’s desire to address incentive issues identified by the IMM by appropriately valuing the desired level of reserves in Operating Reserve Demand Curve (ORDC) and removing the buyback option. In our previous comments, we show the unintended consequences of reducing RUC offer floor, why reduction of RUC offer floor would not have reduced the RUCs that occurred after ORDC changes have been implemented and why reduction of RUC offer floor is not needed to address the incentive problem as the ORDC changes and removal of the buyback option mainly addresses it. Therefore, Shell Energy is supportive of passing the PRS-approved version of this NPRR with RUC offer floor changed to $1000/MWh.

The RUC offer floor was set to ensure (1) RUC commitments don’t undercut market-based offers, (2) out-of-market RUC commitments don’t suppress prices, (3) the emission limits and fuel limits of the old units that are RUCed are preserved for use when needed and, (4) prices reflect the commitment cost so as to send signal to Load/generators to respond to system reliability needs. The principles that were used to set the floor before the conservative operation started are still valid today. As the analysis by London Economics International LLC showed, Reliability Deployment Price Adder (RDPA) won’t be as effective in addressing the price suppression as it is with a $75 or a $200 RUC offer floor. As reflected by the actual market response on Feb 23rd - 24th (lack of buy-back even with the option to buy-back) to the pricing outcomes on Feb 2nd-3rd, price suppression from reducing the RUC offer floor creates the opposite effect of the intent of the NPRR. If the floor is not reduced, then the pricing outcome of Feb 23rd- 24th will incent Entities to self-commit during the next cold/hot event. However, if the RUC offer floor is set at a price where most Resources would self-commit as advocated by Joint Commenters, the incentive for Resource Entities to take market risk and self-commit in advance would be significantly reduced. This problem is made even worse by the changes to buybacks proposed in comments by Joint Commenters on March 25th;ERCOT would have to rely more and more on RUCs.

As Shell Energy has expressed from the beginning of the discussion on this NPRR, this NPRR is addressing the symptom and addressing the root cause will obviate the need for this NPRR. There are many ways to address the root cause like (1) counting the MW of Load Resources providing Ancillary Services in meeting the 6,500MW reserve requirement, (2) creating another Ancillary Service product to procure one-hour or two-hour start Off-Line reserves that can provide the same reliability as RUCs without maintaining large amounts of On-Line reserves, (3) if reserves need to be online then procuring them as Ancillary Services and adjusting ORDC to reflect the value etc. We respectfully request that TAC conduct a workshop to delve deeper into addressing the root cause: how to minimize the need for RUCing and create market incentives for self-commitment.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None