

Phase II Market Design Bridging Options Comment Form

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Comments

**Please provide an Executive Summary and comments on each option below.
Submit the completed form to RevisionRequest@ercot.com**

Executive Summary
<p>Enchanted Rock supports ERCOT's goals with respect to bridge proposal design, as noted under bullet 3, slide 2 of the March 3rd "Introduction to Bridging Solutions" presentation, and adds:</p> <ol style="list-style-type: none">1) Bridge proposals should be complementary to long-term solutions and should provide durable price signals to attract and support new dispatchable resources.2) Subsidization of retiring/retired generation should be avoided due to the risk of market distortions and chilling effects on new investments. This type of solution would make ERCOT/PUCT's long-term goals more difficult to achieve.3) Solutions that leverage competition and are open to robust DER/DR participation will generate the best outcomes for customers, as these are the resources that will respond most quickly to investment signals to help fill the gap (e.g., 12-18 months for deployment versus 4-6 years for bulk power generation). <p>As a result, near-term ORDC modification is the best way to retain existing generation and to incentivize new dispatchable generation until a permanent market design solution, such as PCM, is fully implemented. However, the proposed RTORPA floor is not an optimal solution due to its departure from well-established ORDC design that signals higher prices with rising risk of lost load. Instead, ERCOT should work with the PUCT to fast-track work to consider changes to the slope of the curve based on updated Value of Lost Load and Loss of Load Probabilities.</p>

Option 1: Implement a Basic settlement component of PCM manually

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Enchanted Rock believes that while the manual PCM settlement could be helpful for creating additional revenues for dispatchable capacity, there is too much uncertainty around the ultimate design and implementation of the PCM to make this solution effective for attracting new dispatchable capacity. As Enchanted Rock has noted in previous market design comments to the PUCT, if a PCM construct were to move forward, it is important that the program allow for full participation by behind-the-meter assets that can contribute both load reductions and export MWs.

Option 2: Procure Additional Ancillary Services

This solution would be second to the ORDC modifications in terms of alignment with long-term market design and ease of implementation. However, we note significant ongoing hurdles for DER participation/competition in providing cost-effective Ancillary Services due to Protocol 3.8.6, though ERCOT is expecting to open up Non-Spin and Reg Down in the near future.

Option 3: Enhance the Operating Reserve Demand Curve (ORDC)

Enchanted Rock supports this option, as it deploys a price signal that is accessible all resource types and, more than any other option, leverages competitive forces to generate the best outcomes. The RTORPA floor is a simplistic solution that would artificially escalate the ORDC curve over a predetermined range of ORDC reserve levels. However, the design is a regression in ERCOT's ORDC design. On the one hand, the floor would tend to overvalue reserves relative to the ORDC's targeted design when the curve suddenly jumps to the predetermined floor. On the other hand, in the context of policy discussions that are clearly looking to signal for investment in more dispatchable resources to be available before a crisis event, a low floor could undervalue reserves relative to the price signals required to support new generation. It would be better for ERCOT and the PUCT to work in tandem to fast-track consideration of parameters like the Value of Lost Load (VOLL) and Loss of Load Probabilities (LOLP).

Alternatively, if an RTORPA floor is going to be used, ERCOT should consider implementing several steps instead of a single threshold and floor, focusing on steps that are targeted to periods of lower reserve levels. As modeled by ERCOT, small floors can generate major revenues because of the frequency of intervals the floor would be triggered. These incremental revenues would be dispersed across a broad set of resources, resulting in less new investment for higher customer costs. Even the lowest threshold at 6,500 MW represents 6.79% of intervals

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in the year. Meanwhile, the fast-responding, dispatchable capacity that the state needs typically operates at capacity factors <5%. Setting higher floors at lower reserve level thresholds will help target revenue increases to a more limited set of resources, creating a stronger investment signal for those resources at lower cost to the market.

As an example, floors could be set to roughly align with summer peak values on the ORDC curve at \$100 at 6000 MW and \$250 at 5500 MW. This kind of change would help align market pricing with the increasing risk of scarcity during non-summer periods and the higher level floors for lower reserve amounts would create additional opportunities that would favor fast-responding dispatchable capacity that is most available when others are not.

Option 4: Backstop Reserve Service (BRS)

Without further specification or detail, BRS is difficult to evaluate. If selected for implementation, the program should be designed to persist beyond the implementation of PCM or another market design, otherwise the program will only serve to boost revenues for existing resources. New resources will not have an incentive to participate, especially if there will be restrictions related to exit from the program due to the collection of potentially market-distorting capacity payments. Additionally, BRS should be designed to include DER/DR participation to maximize competition and cost-effectiveness of the program.

Option 5: Contracts for Capacity

This option will be costly and detrimental to the health of the competitive markets.

Option 6: Publish Indicative PCM Values

This option could be helpful for the purposes of guiding implementation discussions around the ultimate development of the PCM proposal, but it does not provide any near-term value for attracting new resources that can enter the market within the time horizon for developing PCM.

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Conclusion/Additional Comments