Phase II Market Design Bridging Options Comment Form

Date	March 13, 2023

Submitter's Information	
Name	Shana Gooch Joyce
E-mail Address	sjoyce@txoga.org
Company	Texas Oil and Gas Association
Phone Number	512.478.6631
Cell Number	210.275.3458
Market Segment	Consumers - Industrial

Comments

Please provide an Executive Summary and comments on each option below:

Executive Summary

The Texas Oil & Gas Association (TXOGA) appreciates the opportunity to provide ERCOT with comments in their efforts to satisfy a PUC directive. We think that the directive is profoundly misguided, however. It fails in three critically important ways:

1. It claims to address a total installed capacity issue, but ERCOT's immediate issue that needs addressing is the problematic forecast uncertainty caused by growing quantities of wind and solar generation on the system—a trend that shows no signs of relenting.
2. It mismatches program to goal by anticipating using a TEMPORARY bridge solution to incentivize LONG-TERM investment decisions.
3. It misdirects valuable and precious ERCOT and industry resources from far more pressing matters.

There remains for advocates of Performance Credit Mechanism (PCM) and a bridging program to demonstrate the fundamental need to move at an accelerated pace to put in place a program that needs thoughtful consideration and stakeholder input. The PUC has provided generators with a great deal of additional money already, both the Phase I changes and several which preceded those adjustments. In addition, there is no credible justification for a significant administrative increase in generator revenues currently. Peaker net margin has exceeded the Cost of New Entry the past two years. There are no announced retirements of existing generation. Capacity reserve margins for this summer and the next are expected to be far above the reserve margin necessary to provide adequate grid reliability. Further proof is that the market has responded with six new thermal units added to the grid in February. The recently released Bates White study (partially funded by TXOGA) also finds that there is no current or imminent capacity shortage in ERCOT.

When specifically asked if there were any announced thermal unit retirements, ERCOT staff stated that generation representatives had mentioned they were considering retirements. Non-public statements by parties that have significant interest in market changes is insufficient justification for market design changes that will result in billions of dollars of extra costs to consumers as early as this year.

The implementation of a TEMPORARY bridge solution to incentivize LONG-TERM investments is a concerning mismatch of program to goal. Such a mismatch should be expected to create material market distortions that will lead to future challenges for ERCOT. If a bridge program is to continue despite TXOGA's objections, only solutions addressing existing resources should be considered as the retention of existing resources is a temporary goal that can be addressed by a temporary program.

Directing ERCOT to create a bridge program in a short timeframe misallocates valuable resources that should be focused on the upcoming summer and continue to work on the long list of projects that are before them from the PUC. It forces stakeholders to misallocate their valuable resources as well. Moreover, the PUC is almost certain to receive further legislative guidance and so the effort going into the exploration of bridging solutions is a loss for all.

The lesson from recent market design changes is that there are unintended consequences that are difficult to address without a thorough review and discussion by the entire ERCOT stakeholder community. The proposed timeline of six business days is insufficient to provide thoughtful review and discussion necessary to avoid market design changes that could result in unintended outcomes.

While there are options which TXOGA finds less objectionable, we still oppose temporary programs as they are wasteful and reduce focus from more important goals like maintaining reliable and cost-effective operations and developing a long-term solution. Even consideration of such programs sends worrisome and confusing signals to the market that ERCOT is being transformed from the best electricity market in the world to nothing more than an administrative construct.

Option 1: Implement a Basic settlement component of PCM manually

Developing and implementing a temporary program similar to the proposed PCM is a reckless direction to pursue given the many uncertainties and considerable market opposition surrounding it. Furthermore, rushing to create a facsimile of PCM is a wasteful use of resources and may create distortions, especially considering that the members of the 88th Legislature has yet to decide on market changes and may direct the PUC to go in a different direction due to pending legislation. Consumers will be asked to pay for a temporary program that many argue is not needed, as a report by E3 confirmed that ERCOT's loss of load expectation (LOLE) is much lower than the typical 1-in-10 range.

Therefore, it is essential to approach the development and implementation of any program carefully and thoughtfully, considering all uncertainties and unknown components.

Option 2: Procure Additional Ancillary Services

Of all the problematic ideas being considered, this is the least disruptive. Ancillary services are the least distortionary and can better address the market's needs and the mandate directed to the PUC and ERCOT in SB 3, i.e., the need to reward dispatchable generation for responding to the intermittency of renewable generation.

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

The ORDC curve has been expanded to the point that price adders are applied when there is little or no risk of emergency conditions. Further expanding the ORDC curve, or applying a price floor, will stretch the marginal market pricing model into a non-market pricing model that administratively sets a market price in most hours of the year.

Per Woody Rickerson's March 6th memo to the PUC, "Developing this reliability metric necessitates moving beyond 0.1 LOLE as the default standard." This then is illogical to attempt to drive the ORDC to achieve the 0.1 LOLE. However, given that many evaluations of the market design suggest that ERCOT is much lower than the 0.1 LOLE, does that mean that the ORDC should be diminished if this is chosen?

Option 4: Backstop Reserve Service (BRS)

The Backstop Reserve Service (BRS) has been documented as a lower cost alternative to PCM for similar benefits to reliability. However, the temporary BRS creates a fixed payment to a preset capacity rather than continuing the current ERCOT practice of paying retiring resources only when determined to be necessary. Therefore, the BRS could needlessly add cost.

Option 5: Contracts for Capacity

This is effectively an option which ERCOT already has in its toolkit. Therefore, there is no need to create a temporary new program.

Phase II Market Design Bridging Options Comment Form

Option 6: Publish Indicative PCM Values
Since this is a zero-cost option to TXOGA members, we do not object for the same reasons as many of the other options. However, TXOGA objects if implementing this option would require any material use of ERCOT and stakeholder resources to develop and implement.

Conclusion/Additional Comments
Given the lack of immediate need and given the significant negative impact on consumers that will result from increasing market costs this year and next, it is difficult to understand the motivation to implement any of the proposed “bridging solutions.” These increased costs will be additive to the impacts of increased fuel costs, increased costs from securitization of costs from Winter Storm Uri in 2021, increased costs from the Phase I of market design changes ordered by the PUC, and inflation, all of which have increased energy prices for ERCOT consumers substantially and with very debatable benefits to reliability. Moreover ERCOT, like all organizations, has limited resources and must prioritize its initiatives. As such, ERCOT should urge the PUC to avoid misdirecting resources towards temporary programs that have dubious value, are likely to distort the market, and will waste valuable resources that are needed in other areas. With a new CEO, critical initiatives such as real-time co-optimization, and the need to develop and implement major changes as directed by the legislature, ERCOT's attention and staff are already stretched thin. Therefore, ERCOT's resources must remain laser-focused on the upcoming summer season—it cannot afford to waste resources on programs of questionable value.