|  |  |
| --- | --- |
| Date | March 13, 2023 |
|  |  |
| Submitter’s Information | |
| Name | Mark W. Smith |
| E-mail Address | [mark@marksmithlawPLLC.com](mailto:mark@marksmithlawPLLC.com) |
| Company | CMC Steel Texas, Chaparral Midlothian LP, and Nucor (“ERCOT Steel Mills”) |
| Phone Number | (512) 531-9555 |
| Cell Number | (512) 635-7930 |
| Market Segment | Industrial Consumer |

|  |
| --- |
| Comments |

|  |
| --- |
| Executive Summary |
| The ERCOT Steel Mills agree with the ERCOT staff that none of the proposed bridging solutions are optimal, and the policy direction is uncertain for a potential permanent solution. Therefore, any interim solution should be reversible and focus on doing no harm to the existing market. If a bridging solution is to be implemented, we offer the following observations:  At the outset, it is difficult to assess some of the options without further detailed guidance as to expected time and effort to develop the option, and costs to consumers of each option. We suggest that reasonable estimates be developed.  Based on what we know now, and given limited information and analysis, of the bridging options presented, we believe that modification of the ORDC, Option 3, would be the best solution – it is proven, it would be simple and straightforward, it is well-understood by the market, it could be implemented more quickly and easily, it would create less distraction from and less delay to efforts to develop and implement the Commission’s permanent solution, and it would best meet the objectives of the Legislature’s charge to the PUCT. Its adoption is wholly consistent with, and would harmonize well with, current market design and operation. Very few design decisions would be required to expeditiously adopt this option. Furthermore, the ORDC curve can be structured to achieve any reliability standard the Commission chooses to establish. Option 3 offers the further advantage that it will be reflected in forward energy prices, will fully support demand response, and can be hedged by loads. The primary downside of this option is some revenues will continue to be paid to non-dispatchable generation. Therefore, we recommend that in implementing this option, the ORDC curve and adders be designed to continue to apply to the degree possible only during time periods of scarcity and challenges to reliability in order to send accurate price signals.  In the alternative, should Option 3 prove unacceptable, adoption of Backstop Reserve Service (“BRS”), Option 4, appears to be a reasonable alternative to consider. However, if BRS is recommended, ERCOT should address the issue of Resources electing to provide BRS returning to the market or being used to provide energy for any forward contracts with LSEs. It would also be important that the cost of BRS be properly allocated to loads. We assume that, just like PCM, settlement would be based on reliability intervals. We recommend that settlement occur annually (or as a fallback, in two seasons – summer and winter), and that 20 reliability intervals per year be utilized, with intervals determined based on Net Load.  Procurement of additional Ancillary Services, Option 2, and/or contracts to provide capacity, Option 5, are already available as tools for ERCOT (contract capacity is available in the form of RMR units). These should be fallback options to consider if needed and if other options don’t adequately address the need for any reason. However, in both cases we are concerned about potential consumer cost of these options -- care should be taken to use these options judiciously and not to overpay for these resource options.  The Steel Mills believe implementation of a basic component of PCM manually to be the worst of the six options presented. We believe the “PCM Lite” proposal would be one of the most time-consuming solutions to implement and would constitute a non-transparent, potentially arbitrary, administrative intervention into operation of the current energy-only market design by adding capacity payments to generators. For these reasons, we urge ERCOT not to recommend this option. However, in our view, if PCM Lite is implemented, settlement should be based on reliability intervals and occur annually (or as a fallback, in two seasons – summer and winter), and that 20 reliability intervals per year be utilized, with intervals determined based on Net Load. |

|  |
| --- |
| Option 1: Implement a Basic settlement component of PCM manually |
| As noted above, the Steel Mills believe implementation of a basic settlement component of PCM manually to be the worst of the six options presented.  Implementation would on a longer timeline than most of the other options listed and would require a great deal of market participant debate and subsequent decisions by the ERCOT Board and the PUCT to determine the details of various required design elements. Critically, the legislature has yet to weigh in on these design elements.  Furthermore, given that the amount of the capacity charges would be administratively determined by ERCOT, the proposal impinges unduly on current market design and operation.  A big problem with this option is the lack of a forward market and the inability of consumers to effectively hedge their costs. The design elements of this option as a bridging solution could be different than the design choices made in implementing the full PCM as envisioned by the PUCT, which we believe could cause confusion and a lot of wasted effort on interim PCM design. Also, depending on how it is structured, we fear it may be very difficult for loads to predict the occurrence of, and curtail in response to, scarcity intervals, resulting in a loss of the benefits of voluntary demand response. As a result, if this option is ultimately recommended, then the Steel Mills suggest that settlement occur annually (or as a fallback in two seasons – summer and winter), and that 20 reliability intervals per year be utilized, with intervals determined based on Net Load.  The high short-term cost and long term uncertainty of a bridge PCM may defer or derail investment decisions by energy intensive companies, while not providing sufficient certainty for generation investment.  If the Commission moves forward with the full implementation of PCM, our strong preference is that the design details all be thought out extensively and thoroughly debated during the design and implementation process. Implementation of “PCM Lite” as a bridging mechanism would require rushed decisions that may be difficult to undo as the final version of PCM or some other permanent policy continues to be discussed amongst policymakers. |

|  |
| --- |
| Option 2: Procure Additional Ancillary Services |
| The cons of this option noted by Kenan Ogelman appear to outweigh the benefit. Most importantly, we are concerned that the relatively illiquid nature of the Ancillary Services markets may make this an unduly costly option for consumers – of course, this also depends on the comparative costs of other options. That said, this option could be retained and utilized if deemed necessary to provide a backstop – it can be implemented easily and quickly using current market design. The concerns about illiquid pricing could be alleviated by designing an ancillary service along the lines of the proposed Dispatchable Reliability Reserve Service (DRRS). Expansion of an ancillary service of this type would also reduce the need to RUC. |

|  |
| --- |
| Option 3: Enhance the Operating Reserve Demand Curve (ORDC) |
| The Steel Mills urge ERCOT staff to recommend only this option to the Board of Directors. Changing the ORDC curve can be accomplished expeditiously. Quickly implementing this option would free up the time of staff, stakeholder committees and participants to focus on the many other market redesign tasks they will face this year. Adjusting ORDC to provide enhanced reliability is the best move forward, provided the adjustments continue to minimize cost adders when no reliability problem exists and focus on price signals for scarcity intervals. The addition of relatively small adders to LMPs during intervals where there is no reliability or scarcity issue is simply a tax on consumers and does little for reliability of the ERCOT Grid.  Additionally, market participants are familiar with operation of the ORDC, resulting in less learning time to digest the changes. Of the options presented, this option best achieves the twin goals of retaining existing generation and incentivizing new generation while least disrupting operation of our current Energy Only market. ORDC enhancements to provide additional revenue can also be reversed in the event that a permanent solution is implemented.  Finally, any very importantly, the ORDC changes would be reflected in forward markets and are therefore capable of being hedged by Loads. |

|  |
| --- |
| Option 4: Backstop Reserve Service (BRS) |
| While the Steel Mills definitely prefer Option 3 (ORDC revision) over this option, BRS constitutes our alternative recommendation in the event the ORDC option is not ERCOT’s preferred and only choice. BRS addresses the twin objectives of retaining existing generation and incentivizing new generation in what appears to be a more cost-effective manner than the identified options other than Option 3.  Kenan Ogelman’s assessment concluded that capacity payments made to a group of regulated BRS resources could be utilized to obtain a competitive advantage over non-BRS resources if those resources are allowed to return to the market in any capacity. For this reason, if this option is recommended by the Board, it would be important to address this issue.  It would also be important that the cost of BRS be properly allocated to loads. We assume that, just like PCM (as recommended in the E3 study), settlement would be based on reliability intervals. We recommend that settlement occur annually (or as a fallback, in two seasons – summer and winter), and that 20 reliability intervals per year be utilized, with intervals determined based on Net Load. |

|  |
| --- |
| Option 5: Contracts for Capacity |
| In our view, this option is essentially the same as Reliability Must Run that is already designed and exists as a tool for ERCOT to use. We note that ERCOT’s use of this tool has been controversial because of its interference in the Energy Only Market. That said, this could be a reasonable fallback option for ERCOT if a backstop is needed – it can be implemented easily and quickly using current market design. |

|  |
| --- |
| Option 6: Publish Indicative PCM Values |
| Steel mills note that indicative PCM values may hold limited value since policy direction has not yet been provided on key input parameters; and indicative values would not incorporate market response to PCM price signals.  If the Commission ultimately chooses to move forward with implementation of PCM or decides to implement a PCM Lite as a bridging solution, it is critical to consumers that all stakeholders have the opportunity to fully understand the PCM mechanism and PCM price signals and be given the opportunity to respond. As part of this endeavor, ERCOT’s public website should effectively assist consumers and generators in predicting the occurrence of a PCM reliability interval. This promotes more effective demand response. Additionally, it gives generators information to be used to commit generation in time for a PCM interval.  Ideally, ERCOT should post in a special separate area of the website, all relevant public information needed to predict scarcity intervals. This would include continuously updated documentation of the historical net load reliability hours that potentially will be used to pay generators and charge loads. The special website area should contain all of the PCM information needed to understand the history and current expectations of future PCM intervals in one place, notwithstanding that some of the needed information may also be found in other places on ERCOT’s public website. |

|  |
| --- |
| Conclusion/Additional Comments |
| Of the options put forward, the ERCOT Steel Mills urge ERCOT to recommend only Option 3 as a bridging solution. Further, of the of the other options identified by Staff, Option 1, “PCM Lite,” looks to be the least attractive from a reliability and consumer perspective. |