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| Market Segment | Cooperatives |

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| Comments |

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

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| Executive Summary |
| **South Texas Electric Cooperative, Inc. (STEC) is a not-for-profit rural electric cooperative corporation providing wholesale electric services to nine distribution cooperatives serving over 290,000 member-consumers, in 47 South Texas counties. STEC is a generation and transmission (G&T) cooperatives, that owns and operates generation to serve its member distribution cooperative’s retail member loads. STEC participates in the wholesale ERCOT market with respect to both energy and ancillary services, bilateral transactions and through its owned generation.**  **STEC carries reserves to meet the needs of its loads but when the market is short capacity, STEC’s members are subject to load shed. For this reason it is critically important that any bridge solution does not delay the implementation of the final long-term market design changes necessary to bring additional dispatchable generation capacity into the ERCOT market. STEC believes that devoting resources to a bridge product or service will further delay implementation of the final long-term market solution when ERCOT already has in place Reliability Must Run (RMR) protocols that will keep generation needed for reliability in the market until such time as new generation is added.**  It is more important for ERCOT to devote its time and resources to the development and implementation of a long-term market design plan that rewards and credits dispatchable capacity. Focusing on the implementation of a long-term solution, instead of adopting a bridge mechanism when ERCOT already has RMR, a proven bridge mechanism, will send market signals to incent the development of new dispatchable resources in ERCOT. |

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| Option 1: Implement a Basic settlement component of PCM manually |
| This option would only be beneficial to the ERCOT market if it does not impact the implementation of the final long-term market design. If this bridge option results in providing information to market participants as to how the new PCM market will function if and when it is fully implemented it could be beneficial. If, however, prices are set from this partial implementation, ERCOT would be establishing prices manually, resulting in administratively set prices that would undermine confidence in the market, and may result in more harm than good to the functioning of an efficient market. Additional information is needed concerning how the hours of highest reliability risk would be determined, the compliance period, and the number of hours that would be used in the compliance period in order to evaluate Option 1. |

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| Option 2: Procure Additional Ancillary Services |
| STEC is concerned that if ERCOT elects to procure additional Ancillary Services, such procurement will only come from existing resources that qualify to provide the additional Ancillary Services. This could have the effect on preventing dispatchable units from taking outages.  In addition, an increase in the procurement of Ancillary Services will not incent investment. Depending on when the Ancillary Services are procured, Option 2 could further strain the existing fleet of dispatchable generation. Option 2 does not provide a means to target all dispatchable resources, but only a subset that qualifies for the Ancillary Service. If the Resource is not qualified to provide the Ancillary Service, increasing the volume of Ancillary Services will do nothing to provide additional incentives for the Resources to stay in the market. In fact, it may actually harm a Resource (particularly a baseload resource) as additional zero to LSL energy on the system further suppresses energy prices. The unintended consequence may be that Option 2 creates an incentive to retire the Resource.  An additional concern with Option 2 is the continued reliance on Reliability Unit Commitment (RUC), which is not sustainable and introduces a significant increases in generator wear and tear. |

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| Option 3: Enhance the Operating Reserve Demand Curve (ORDC) |
| STEC believes that an enhanced ORDC could be implemented as a quick and efficient means to bring additional revenue to dispatchable Resources, if structured correctly.  If structured properly such that the ORDC prices increase only at times when non-dispatchable generation is providing substantially less reserves to the system, such as during periods of net peak load, then dispatchable generation would be receiving the targeted revenues. While not previously discussed, an enhancement to Option 3 would include making ORDC payments only to qualified dispatchable generation that can provide continuous service during peak net load periods that are the periods in which the system is under the greatest stress. |

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| Option 4: Backstop Reserve Service (BRS) |
| STEC does not support Option 4, the Backstop Reserve Service (BRS). The BRS could exacerbate capacity problems in the short term by taking much-needed generation out of the market. ERCOT has also represented that the development of the BRS would create delays in the implementation of the long-term Phase II market design proposal. STEC does not support the adoption of a bridge solution that delays implementation of the long-term market solution. |

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| Option 5: Contracts for Capacity |
| If contracts for retiring or mothballed generation are used as part of the bridging solution, this option should be used selectively, only for units that are known to be able to complete the term of the contract, and with mechanisms similar to those associated with RMR. For example Option 5 must include an ability for ERCOT to claw back capital investments if the Resource sought to continue operation in the market following the termination of the contract.  STEC previously recommended in its comments in Docket No. 54335 that RMR be utilized as a backstop mechanism for the market. STEC does not believe that RMR is a permanent solution. However, until such time as a long-term solution can be implemented, RMR is a ready-made stop-gap mechanism that has been tested in the market over many years. |

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| Option 6: Publish Indicative PCM Values |
| If the PCM is the final design construct chosen by the Legislature, Option 6 would be STEC’s preferred option because it can be implemented quickly and easily to provide signals, similar to those initiated prior to ORDC implementation, for parties to determine whether they want to invest in dispatchable generation in the ERCOT market and how best to manage their risk under the PCM construct. This option is also the preferred option because it would not delay the implementation of the new long-term market design, if PCM is the new long-term market design. |

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| Conclusion/Additional Comments |
| If ERCOT decides to recommend the adoption of a bridge solution to the PUC, STEC recommends that the focus be on the final market design that bridging options that would delay implementation of the Phase II market design be avoided. The implementation of a long-term solution that supports existing and new dispatchable generation, particularly when the ERCOT market has RMR as a backstop to Resource retirements, is much more important than the development and implementation of a bridging option. |