

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>The primary objective of the bridge solution should be to make market adjustments that ameliorate the negative impacts of ERCOT's post-Uri conservative operations. Specifically, the market should send pricing signals that encourage the self-commitment of dispatchable resources (especially legacy gas steamers) at levels sufficient to meet ERCOT's self-imposed operational cushions.</p> <p>Of the bridge solutions proposed, only Option 1 (PCM) and Option 3 (ORDC) meet this objective, and ERCOT should pursue both of them in parallel.</p> <p>The specific parameters for Option 3 should reflect the operational realities that currently impact effective operation of the ERCOT day-ahead and real-time market. Specifically, because ERCOT requires a sufficient "cushion" of reserves in light of conservative operations, the LMP pricing should reflect the economic conditions necessary to encourage self-commitment of the resources that ERCOT requires (typically legacy gas steam units).</p> <p>The pricing at 6500 RTOLCAP should be sufficient to bridge between typically marginal CCGT costs (e.g., 8.0 MMBtu/MW) and typical marginal steam unit costs (e.g., 12 MMBtu/MW). Accordingly, the minimum pricing floor for each day at 6500 RTOLCAP should be 4.0 MMBtu/MW multiplied by the FIP.</p> <p>Regarding Option 1, ERCOT should wait until such time that the Texas Legislature has completed the 88th regular legislative session (and any special sessions) in order to confirm that the Legislature has not overruled the PUCT's recommendations.</p>

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Option 1: Implement a Basic settlement component of PCM manually

While Option 1 would be the best overall bridge solution, the legislative uncertainty surrounding PCM suggests that ERCOT should defer work on Option 1 until such time that the legislature has provided clarity on the solution.

Option 2: Procure Additional Ancillary Services

Option 2 is not an effective bridge solution because it will not accomplish the Commission's primary goal. It will not provide incentives for marginal units to remain in the market because such units will not be able to provide such services.

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

Option 3 is an effective bridge solution.

The specific parameters for Option 3 should reflect the operational realities that currently impact effective operation of the ERCOT day-ahead and real-time market. Specifically, because ERCOT requires a sufficient "cushion" of reserves in light of conservative operations, the LMP pricing should reflect the economic conditions necessary to encourage self-commitment of the resources that ERCOT requires (i.e., steam units).

The pricing at 6500 RTOLCAP should therefore be sufficient to bridge between typically marginal CCGT costs (e.g., 8.0 MMBtu/MW) and typical marginal steam unit costs (e.g., 12 MMBtu/MW). Accordingly, the minimum pricing floor at 6500 RTOLCAP should be 4.0 MMBtu/MW multiplied by the FIP for each day.

Option 4: Backstop Reserve Service (BRS)

Option 4 is not the best bridge solution.

BRS, by design, keeps existing capacity out of the generation stack until there is an emergency. As evidenced by ERCOT's conservative operations after Uri, the goal is to ensure that generation is committed and dispatched before an emergency occurs. ERCOT needs more dispatchable generation online during tight conditions, not less. Earlier formulations of BRS suggested that legacy steam generation units would be the target resources for the program. More recent formulations appear to indicate that the program would target gas peakers.

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Either way, intentionally holding generation capacity out of the market would increase market volatility, raise energy costs, and create increased uncertainty around emergency conditions. It would likely be good for speculative power traders but bad for the market.

Option 5: Contracts for Capacity

Option 5 would certainly (by definition) have the benefit of keeping legacy marginal units from retiring. But given the similarity to the existing RMR process, it is really a “do nothing” approach and not a “bridge solution” at all.

Option 6: Publish Indicative PCM Values

To the extent to that Option 6 is pursued, efforts should be made to ensure that the indicative PCM values are, as much as possible, representative of actual clearing mechanics.

Conclusion/Additional Comments

None.