

## Phase II Market Design Bridging Options Comment Form

Date	03/13/2023
------	------------

Submitter's Information	
Name	Douglas Pietrucha
E-mail Address	dpietrucha@texasadvancedenergy.org
Company	Texas Advanced Energy Business Alliance
Phone Number	(202) 380-1950 x3033
Cell Number	
Market Segment	Trade Organization

Comments
----------

**Please provide an Executive Summary and comments on each option below.**  
**Submit the completed form to [RevisionRequest@ercot.com](mailto:RevisionRequest@ercot.com)**

Executive Summary
<p>When TAEBA developed responses to the Commission's questions regarding phase II market reform in December 2022, we encountered several recurring principles that, if followed, we believe will lead to a robust ERCOT Market design consistent with, and supportive of, the current competitive market in Texas. Through discussion with our members and other stakeholder groups, we find that any new wholesale market design should:</p> <ol style="list-style-type: none"><li>1. solve for a need that is clearly defined;</li><li>2. be transparent and technology neutral;</li><li>3. be quantifiable and justifiable in cost and expected market size; and</li><li>4. leverage competition to ensure lowest possible consumer cost.</li></ol> <p>Assessment of the bridge mechanism design proposals should be done through the lens of these principles, which we believe work well to guide the selection of a bridge market mechanism that is simple to implement, cost efficient, and inclusive. To achieve alignment of the bridge mechanism with best principles, TAEBA urges ERCOT to ensure that advanced energy generation resources such as wind and solar, along with battery storage, Demand Response (DR), Distributed Energy Resources (DERs), and other demand-side resources should be integrated directly into any bridge mechanism construct so they can directly contribute to, and be fully compensated for, the reliability and resilience benefits they provide. To ensure technology-neutral implementation, eligibility should be established through evidence-based demonstration of system needs, such that advanced energy technologies, particularly DR and DER, are able to participate in the bridge market on the basis of their technical capability and cost-effectiveness. TAEBA is not endorsing any of the</p>

## Phase II Market Design Bridging Options Comment Form

proposed bridge mechanisms at this time, but we urge ERCOT to implement a lower cost alternative to the PCM as the bridge mechanism, rather than implementing a manual version of PCM.

### Option 1: Implement a Basic settlement component of PCM manually

The E3 study failed to demonstrate that the PCM has met the fundamental principles for effective wholesale market design outlined above, and TAEBA does not find that the modified interim PCM proposal satisfies these principles either. Significant implementation work will be needed if the PCM is selected as the long-term market mechanism to ensure that it is fair, effective, and cost-efficient. Our members find the interim PCM is not a workable proposal because of its proposed exclusion of certain advanced energy generation and demand-side resources as resource technologies capable of earning PCs directly, the reduced transparency caused by removing the forward market, the lack of certainty that the manually determined PC value will attract additional generation capacity, and the presence of a related but significantly less expensive alternative of publishing indicative PCM values (Option 6).

The lack of compensation for advanced energy generation and demand-side resources through the interim PCM is in direct opposition to the principles of technology neutrality and leveraging competition for lowest consumer cost, tenets the Commission and ERCOT value. Disallowing certain technologies from participation in the interim PCM is discriminatory. All technologies, whether a generation or load management resource, which can provide grid relief during times of constraint, should have opportunities to be compensated for performing grid relief services under the same market construct. While DR and DERs could theoretically provide value through reduced PC obligation to LSEs, there are limitations to this method that will dampen the response of these cost-effective and reliable technologies to meet peak system needs. This includes the necessity to seek a bilateral contract outside the ERCOT market to be compensated for their grid services, which is an additional administrative burden generation resources do not have, making their equal contributions to grid relief less profitable due to additional human capital costs and likely negotiation for compensation sharing from the LSEs.

TAEBA also has concerns that a manually set interim PC price could be too low to induce new generator participation, or worse, be set arbitrarily high while still not attracting new generation due to construction timeline limitations. This would result in higher compensation for legacy resources without improving reliability outcomes. If the PCM's primary function is to spur new capital investment in generation resources, it is intended to achieve that as the permanent market mechanism regardless of the bridge mechanism chosen. The PCM's 3-5 year implementation timeline is shorter than the time it will take to build new generation resources that are not already in the interconnection queue. Therefore, the interim PCM's effect on the market is likely to be negligible in terms of new generation resources it attracts. Nevertheless, it will come at a cost to ratepayers, burdening Texas industry, small businesses, and retail customers with higher prices for what is effectively the same service they already receive. The best thing an interim PCM would do for attracting new generation resources is providing a model of what the PCM market could look like, and ERCOT already proposed a less expensive way to do that by publishing indicative PCM values (Option 6).

## Phase II Market Design Bridging Options Comment Form

Lastly, our members are skeptical that a manual PCM market could be implemented as a bridge solution without resolving significant policy decisions the PUC noted in its January 19, 2023 memorandum filed with its Order to adopt PCM as the permanent market mechanism. The memorandum listed a non-exhaustive list of 17 key decision points that the Commission would need to resolve in its implementation plan, including the need to:

- define eligible resources on the generation and load side;
- determine the PCM compliance period and number of PCM hours per compliance period;
- determine how PCM hours are calculated;
- determine methodology for identifying hours of highest risk; and
- determine reliability standard associated with each PCM compliance period.

Among the various decision points listed, the PUC has only begun to undertake its assessment of the appropriate reliability standard for the PCM. It is unclear how ERCOT would be in any position to implement a manual PCM without substituting its judgment for that of the Commission in a rush to implement PCM as a bridge mechanism. Resolution of these decision points demands careful consideration and should afford stakeholders a full opportunity to be heard.

### Option 2: Procure Additional Ancillary Services

TAEBA is not opposed to this option if it includes equal opportunity for advanced energy generation, DR, and DERs to participate in those ancillary services (AS) according to their technical capability. ERCOT staff have expressed concern about how the introduction of ERCOT Contingency Reserve Service (ECRS) will affect the AS market generally upon its introduction in June 2023. This concern was accompanied by the suggestion that extra AS procurement be delayed beyond the introduction of ECRS to understand new market effects, which is a reasonable strategy.

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

TAEBA is not opposed to this option if it includes equal opportunity for all advanced energy generation, DR, and DERs to participate in the same way as battery storage under the ORDC according to their technical capability. The dispatchability of other DR and DERs to alleviate grid stress is comparable to battery storage systems and should be considered for the same response opportunities and compensated equally for service delivery.

### Option 4: Backstop Reserve Service (BRS)

TAEBA is not opposed to this option if it includes equal opportunity for advanced energy generation, DR and DERs to participate in BRS according to their technical capability. DR and DERs can act as “curtailable” assets and can be leveraged to meet localized capacity issues.

## Phase II Market Design Bridging Options Comment Form

### Option 5: Contracts for Capacity

TAEBA is not opposed to this option if it includes equal opportunity for advanced energy generation, DR and DERs to contract as capacity resources.

### Option 6: Publish Indicative PCM Values

As stated above, this option will achieve the same market signaling to generators as the interim manual PCM at a much lower cost. Therefore, indicative PCM values should eliminate implementing the interim manual PCM as a possibility. TAEBA is not making an endorsement for this method as the bridge mechanism, but it is far preferable to implementation of a manual PCM.

### Conclusion/Additional Comments

TAEBA does not endorse any of the bridge mechanism proposals. However, we believe ERCOT should not select the manual PCM (Option 1) as the bridge, given that utilizing indicative PCM values (Option 6) will have similar effects at a fraction of the cost and human capital required to administer it, and is therefore the superior of the two.