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| NPRR Number | [1296](https://www.ercot.com/mktrules/issues/NPRR1296) | NPRR Title | Residential Demand Response Program |
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| Date | September 10, 2025 |
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| Submitter’s Information |
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| Market Segment | Independent Generator |

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| Comments |

Vistra Operations Company LLC (Vistra) greatly appreciates the opportunity to provide initial comments on Nodal Protocol Revision Request (NPRR) 1296. Consistent with the feedback Vistra provided at both workshops on this topic on May 2, 2025 and June 16, 2025, as well as written comments submitted in response to ERCOT’s proposal presented at those workshops (pp. 1-3 of the [first workshop stakeholder comments](https://www.ercot.com/files/docs/2025/06/24/Residential-DR-Stakeholder-Feedback_Workshop-I.docx) and pp. 21-37 of the [second workshop stakeholder comments](https://www.ercot.com/files/docs/2025/08/01/Residential-DR-Stakeholder-Feedback_Workshop-II.pdf)), Vistra continues to have deep and significant concerns with NPRR1296’s approach to incentivizing residential demand response and does not see a viable path to support it. As such, Vistra will not revise the proposed Protocol language in NPRR1296 and instead offers a summary of prior comments. There may be other market-based approaches to encouraging residential demand response (“DR”) that Vistra could support, and Vistra hopes to have the opportunity to continue those discussions with ERCOT and stakeholders in the future.

Vistra first reiterates that **Vistra supports residential (and other) load flexibility *when integrated properly within an operationally and dynamically efficient market policy framework***. However, as currently drafted, NPRR1296 does not accomplish this goal and likely exacerbates existing long-term resource adequacy concerns because  ***NPRR1296 introduces significant new distortions******to the ERCOT wholesale energy market****.*

Unlike other organized electricity markets, the ERCOT “energy-only” market design relies exclusively on the real-time energy/ancillary service markets to perform both operation efficiency and dynamic efficiency.

* Operational Efficiency: Competition among eligible resources ensures the identified need is met at least cost.
* Dynamic Efficiency: The combined effect of short-term and long-term market signals that ensures the full suite of market services are available to be provided at least cost.

A successful market design will prioritize this efficiency co-optimization and provide a level playing field for all qualified market participants (both supply-side and demand-side) to compete fairly for the benefit of all customers in the ERCOT market.

Vistra’s opposition to ERCOT’s proposal can be summarized in five major areas of concern:

**Market Signal Erosion**

* Out-of-market residential DR payments undermine both operational and dynamic efficiency, making it harder for investors to justify new generation projects (particularly dispatchable generation, which already faces economic headwinds in an energy-only market design). Residential DR should be done through a broader market design reform that incentivizes supply and demand with the same price signal.
* Forward prices for generation are already trending below the level needed to support new gas capacity and Real-Time Co-optimization is expected to reduce market revenues even further. ERCOT’s residential DR proposal would widen the gap because it is designed to directly undercut investment signals an energy-only market needs in order to attract and retain generation resources.

**Failure to Align with Policy Goals**

* ERCOT’s own analyses show the system already needs additional dispatchable generation to meet reliability standards.
* By subsidizing residential DR outside of wholesale market price signals, ERCOT risks undermining the very market signals needed to attract new dispatchable generation and contradicting state policy priorities (e.g., the Texas Energy Fund is meant to support new natural gas generation, but the generation resources that the Texas Energy Fund supports will still need to be economic to operate).

**Lack of Demonstrated Need**

* ERCOT cites load growth as justification for residential DR, but this growth is primarily commercial/industrial, not residential.
* The load forecast is subject to revisions and reflects large loads (e.g., crypto miners) that are often flexible or can deploy backup generation as if they were firm loads.
* Even if ERCOT’s load forecasts were to hold, real-time prices provide a fairer, market-based signal to all flexible resources, not just residential DR.

**One-Sided Justifications**

* ERCOT argues that residential DR is “not fully enabled today.” Vistra counters that this is not unique to residential DR. Many generation resources are also not “fully enabled” due to the ERCOT energy-only market design. Indeed, many of the arguments ERCOT has made to justify the “need” for NPRR1296 are equally applicable to generation resources.
* This does not justify selective subsidies – rather, it should inspire holistic market design that sends the same price signals to resources of all types.
* ERCOT claims residential DR “represents an opportunity,” but as currently proposed, it will prioritize one resource class before defining a system need for that subsidy and abandons market competition as a coordinating feature.

**Specific Program Design Issues**

* Ex-post net load evaluation is a dangerous market distortion that undermines ERCOT’s reliance on scarcity pricing for investment signals.
* Payment at levels tied to Cost of New Entry (CONE)[[1]](#footnote-1) or the rolling average Peaker Net Margin (PNM) for gas turbines would make residential DR among the most expensive solutions, despite being less durable than new generation.
* Load ratio share cost recovery will not be competitively neutral and would represent a regressive wealth transfer amongst residential consumers, effectively the customers from one REP are subsidized by customers of another REP.
* Unfair cost allocation issues are exacerbated by contractual and technological exclusivities that currently exist and act as “walled gardens” that will concentrate residential DR payments and force some REPs (and NOIEs) to subsidize their competitors (this “walled garden effect” is an issue that the ADER Task Force spent some time trying to reconcile as well).
* Risk of over-deployment by REPs leading to customer fatigue and opt-out dynamics that could reduce customer willingness to participate in DR during actually tight grid conditions.
* The 500 MW “cap” is not a safeguard against the risk of damage to the ERCOT market. Rather, the practical effect of NPRR1296’s structure is that it could easily support a much larger swathe of market-distorting demand response signals – simply at a lower price point while spreading the overall cost cap across a wider pool of subsidized responses.

Vistra concludes that ERCOT’s proposal in NPRR1296 is **misaligned with the energy-only market structure and distortive**, and if pursued as designed, will undermine Texas’ ability to meet its reliability standard by discouraging investment in dispatchable generation, all else equal. For the reasons outlined directly and indirectly above, Vistra recommends that NPRR1296 be withdrawn and efforts to support residential DR be redirected towards a holistic market design that addresses inadequate pricing signals for both residential DR and generation resources (or at the very least, does not subsidize residential DR in a manner that distorts the wholesale market).

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None

1. Note: NPRR1296 does not refer to CONE directly, but rather sets an “Initial Residential Demand Response Rate” of $140,000 per MW-year; from ERCOT’s presentations at the May and June 2025 workshops, however, it is clear that that value is anchored to the estimated gas turbine CONE approved by the PUCT in 2024. See, for example slide 16 of ERCOT’s presentation materials from the June 2025 workshop (<https://www.ercot.com/files/docs/2025/06/10/Residential-DR-Workshop-II-Updated.pdf>) [↑](#footnote-ref-1)