



Control Number: 40000



Item Number: 12

Addendum StartPage: 0

40000

PROJECT NO. 37897

PROCEEDING RELATED TO §
RESOURCE AND RESERVE §
ADEQUACY AND SCARCITY §
PRICING §

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS
11/14/13 PM 2:55
11.13.13

COMMENTS OF TEXAS COMPETITIVE POWER ADVOCATES

Texas Competitive Power Advocates (“TCPA”)¹ appreciates the opportunity to file the following comments in the above-referenced proceeding in response to the notice of workshop on environmental regulations and reserve adequacy.

In this proceeding, the Commission has requested comments on the ERCOT report “Review of the Potential Impacts of Proposed Environmental Regulations on the ERCOT system” (the “Report”). On June 1, 2011, the deadline for filing comments was extended one week to allow commenting parties to take into account ERCOT’s 2011 Capacity, Demand, Reserves Report (the “CDR”), released that day. TCPA’s comments herein, accordingly, will address both reports.

Questions by the Commission on the Report:

1. **Please provide any comments on the Review of the Potential Impacts of Proposed Environmental Regulations on the ERCOT system.**
2. **What reserve margin levels can be reasonably expected within the ERCOT system with the proposed changes to environmental regulations?**

TCPA will respond to each of the above questions. In addition, our comments will also address some concerns about the recently released CDR.

¹ TCPA members filing these comments include Calpine Energy Services, LP, Constellation Energy Commodities Group, Direct Energy Services, LLC, Exelon Generation (Power Team), Gregory Power Partners, LP, IPR-GDF SUEZ Energy Marketing NA, Inc., NextEra Energy Resources, Shell Energy North America (US) and Topaz Power Group.

Question 1:

TCPA agrees the Report is a worthy exercise to assist the Commission and market participants in understanding how ERCOT views the impact of the proposed EPA regulations. TCPA believes there is general agreement the proposed rules will have some impact on existing generation and the development of future generation resources in ERCOT. This general conclusion is supported by previous reports issued by EEL, Brattle and NERC and described in the Report. As noted in a recent Open Meeting, there is a divergence of opinion among the studies and in comparison to the Report. In a recent Open Meeting the Commission asked Staff to arrange for The Brattle Group to attend a workshop to discuss its findings. TCPA agrees this would be a productive exercise.

Rather than providing comments on the specific findings in the Report, TCPA assumes the two rules analyzed by ERCOT – HAPs and 316(b) – will result in the retirement of some level of existing generation and impact future capacity levels in ERCOT. Whether it will be to the level described in the Report, particularly in Table 4 “Expected Unit Retirements by Scenario With Closed-Loop Cooling Tower Requirement,” is subject to a number of variables that are difficult to predict and reach common agreement.

When coupled with the recent CDR, the Report does highlight the need for market changes that will facilitate ERCOT’s prediction that “much of the retired generation would be replaced with new generation capacity.” TCPA understands scarcity pricing will be discussed in the June 29 workshop and looks forward to participating in the workshop.

Question 2:

TCPA is not in a position to state a specific planning reserve margin based on the future impact of proposed EPA regulations. For 2017, the Report has a high reserve margin of 13.57%, Table

3 and low of – 6.2%, Table 4, but also concludes a reserve margin of 2.5% in 2015. In both cases, ERCOT assumes no new generation is constructed. By contrast, the CDR² reflects the following reserves:

2015	2016	2017
11.3%	10.0%	10.8%

Again without questioning the validity of the assumptions in the Report or the CDR, the results highlight ERCOT has a looming reserve issue – with or without the impact of the two EPA regulations analyzed by ERCOT.³ Again, these numbers highlight the need for a market mechanism to ensure appropriate capacity resources are available to ensure long-term resource adequacy.

Comments on the CDR:

The Report demonstrates how quickly, and significantly, events beyond the control of system planners can affect ERCOT's reserve adequacy. ERCOT uses 13.75% as the target margin for the amount of planning reserves it considers adequate for system reliability. ERCOT's actual reserves are subject to reductions to and below that target for any or all of a number of reasons, only one of which is the adoption of the proposed environmental regulations addressed in the Report. Certain others will be discussed below in connection with the CDR. Because reserve adequacy is such a critically important matter, particularly in a competitive market like ERCOT's, where investors, not regulators, decide to build new or return mothballed capacity to service, the issues that TCPA would like to see addressed in the series of workshops planned on this topic are:

² Report on the Capacity, Demand, and Reserves in the ERCOT Region - May 2011 (June 1, 2011 Revision) tab: "SummerSummary"

³ See the last page of the Report, at 18.

- Are the planning assumptions being used by ERCOT reasonable in light of weather trends and market price signals?
- Are there mechanisms that can be put in place, or tweaks to market rules, that can avert a slide in reserves that threatens system adequacy?
- What are ERCOT's plans to maintain system adequacy if reserves fall below the 13.75% target?

The May 2011 CDR

The CDR shows an 18.4% reserve margin for 2011 and 2012, falling to 15.1% in 2013, and to 11.9% (well below the 13.75% target and staying below thereafter, based on currently committed generation) as early as 2014.⁴ A day after posting the CDR, ERCOT sent out a correction thereto, revising the 2011 reserve margin to 17.5%, due to inadvertently counting three new gas units twice in the calculation of resources. At the June 2 meeting of the Technical Advisory Committee ("TAC"), ERCOT discussed several assumptions in the load forecast used in the CDR and responded to questions and concerns raised by stakeholders. ERCOT stated that load growth and weather conditions were the two most important drivers of the forecast. All load growth in ERCOT's forecast is tied to Moody's forecast of employment. After using Moody's low, pessimistic forecast for 2010, ERCOT returned this year to Moody's more optimistic base case, due to an improving economy. For forecasted peak demand in 2010, ERCOT used a temperature of 104.75°. For forecasted peak demand for the summer of 2011, however, ERCOT used a temperature of 102.25°, 2 ½ degrees cooler than 2010 (a year in which ERCOT's peak exceeded its forecast four times). The 104.75° was based on eight years of

⁴ The May 2011 CDR does not factor in any effects of the adoption of the proposed environmental regulations addressed in the Report.

temperature data, while the 102.25° was based on fourteen years of weather data, beginning in 1996.

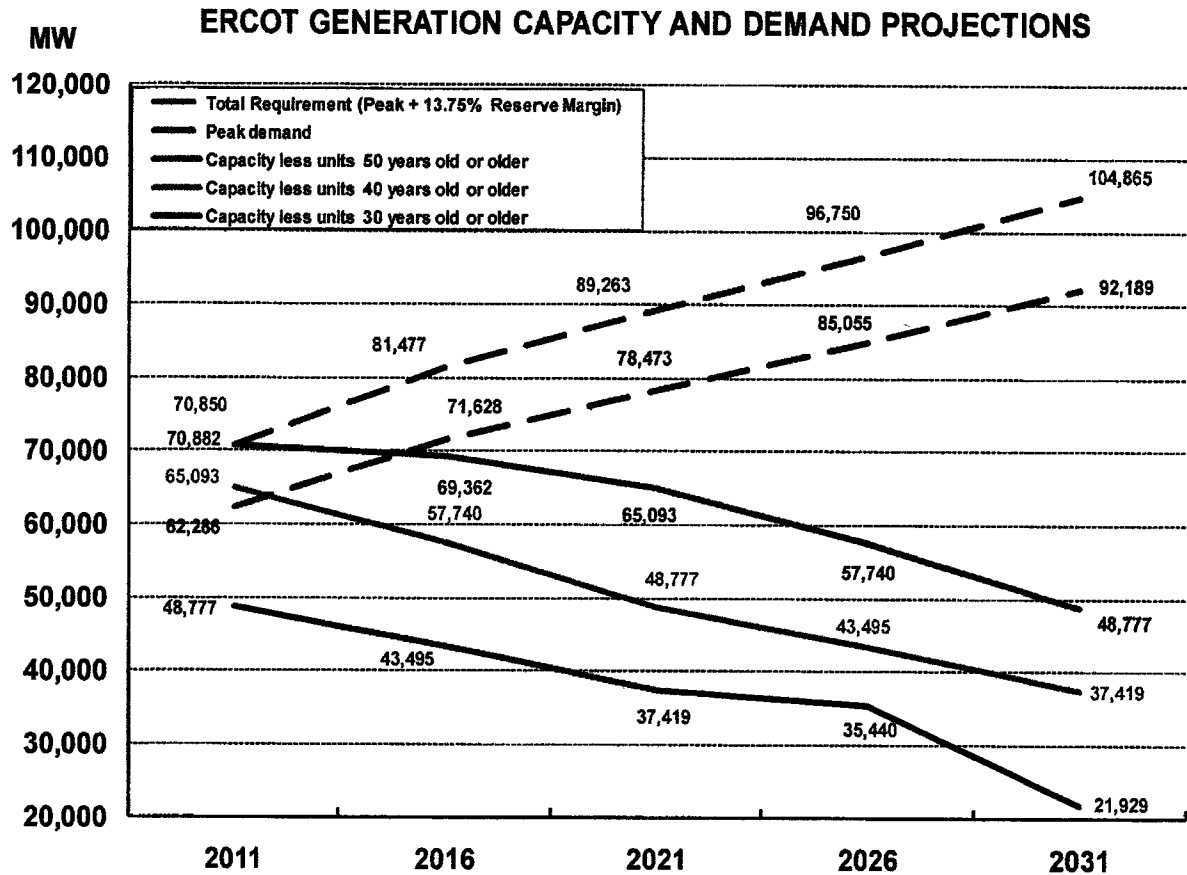
While TCPA understands that ERCOT may have had good reasons for these assumptions based on system planning custom and theory, and we do not question ERCOT's good faith, these and other assumptions and omissions in the CDR cause us to doubt the robustness of the conclusion that ERCOT's reserve margin is adequate for the very short term. Our questions and concerns remain, and include:

1. If the very hot temperatures of recent summers is a clear trend, is it more reasonable to use the average temperatures of fewer, more recent years to perform system planning than to reach back in time to include years outside of that trend? ERCOT says that using more data points is theoretically more accurate, but a 2.5° difference in temperature in Dallas in the summer is a lot of additional load. ERCOT's press release touts the 17.5% "excess" over expected peak demand this summer, while adding the almost parenthetical caveat that "if the grid experiences a prolonged period of abnormally high temperatures or higher-than-normal unplanned outages due to drought conditions or 'other unexpected weather event,' we will be prepared to implement...emergency procedures." At a time when Texas is already experiencing days with temperatures exceeding 100 degrees (it was mid-June when the temperature exceeded 100 degrees in 2008 and stayed there for six weeks), and we appear to be in the eighth month of the most severe drought the state has ever experienced, with no rain in sight, is it reasonable for ERCOT to consider abnormally high temperatures and drought conditions to be weather conditions that require "emergency procedures?" What effect does that have on policy-makers?

2. ERCOT admits that it does not actually expect to enjoy a 17.5% reserve margin this summer, and that the load is very likely to well exceed that included in the CDR for 2011, to 66,000 or 67,000 MW, which would indicate a 10% reserve margin in 2011.⁵ By projecting a rosy picture of this coming summer peak season,⁶ ERCOT affects forward price curves, market liquidity and investors' planning. Is that effect reasonable—and desired?
3. If the 2011 load forecast is admittedly wrong, does that call into question the robustness of the forecast for the years following?
4. ERCOT did not include, in the CDR reserve margin calculations, any reasonable estimate of plant retirements for any years in the forecast contrary to the assumptions in the Report. ERCOT does include an estimate of plant retirements in their “Long Term Projections” tab (see below) where they show the effect when 30, 40, and 50 year-old plants are retired; however they do not include any adjustments to their reserve margin calculation to reflect this risk. The Graph below shows that ERCOT falls below the 13.75% reserve margin requirement, in the first year if, only the 50 year old units leave the system. The results are even more dramatic if additional older units begin to retire without new development in ERCOT.

⁵ ERCOT says, however, in defense of its use of a lower temperature for predicting the load forecast in the CDR, that the goal of the CDR is not to produce the best load estimate for 2011, and that the average of more data points is the best number to use for purposes of long-term reliability planning.

⁶ See the attached graphs comparing ERCOT's reserve margin estimates with CERA's and NERC's.



5. ERCOT used a completion rate of 22% for new planned capacity, based on “history.” The CDR includes, however, as changes from the December CDR Update, the commercial operation delay by a year of a 202 MW wind farm, a 1380 MW gas plant, and a 660 MW coal plant. According to the Market Monitor, energy prices in ERCOT support investment in none of these technologies.

TCPA members have embraced the Commission’s energy-only market for ERCOT, and its member companies have invested hundreds of millions of dollars in this market. But there appear to be but few and uncertain plans for new generation, and all of the recent investment activity has been limited to the acquisition of distressed plants. We are committed to working

with ERCOT and the Commission to address our concerns regarding resource adequacy, and to find or develop the tools necessary to make this market as healthy as all of us would like it to be.

Respectfully submitted,

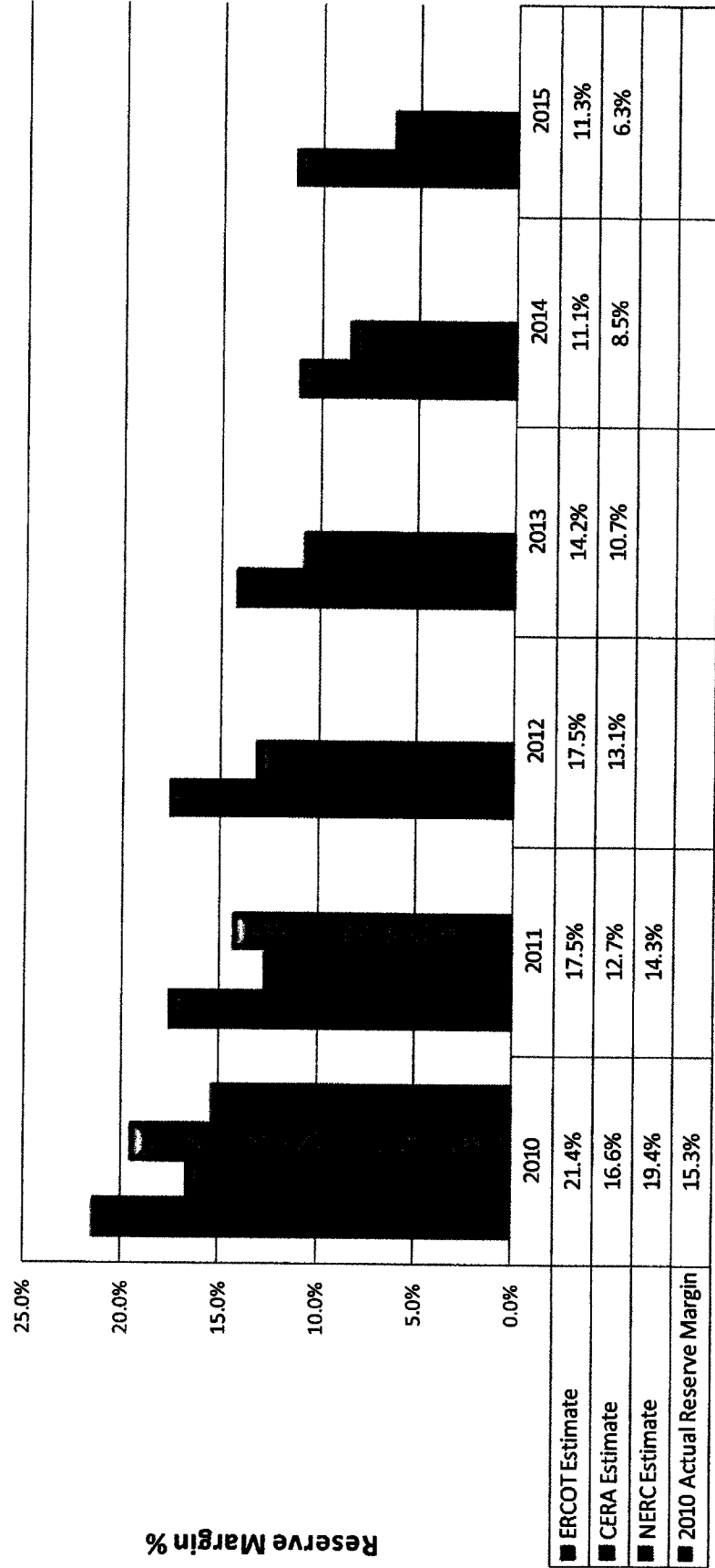
By: Marianne Carroll

Marianne Carroll
State Bar No. 03888800
Brown McCarroll, L.L.P.
111 Congress Ave., Suite 1400
Austin, TX 78701
mcarroll@brownmccarroll.com
Telephone: 512-479-1156
Telecopier: 512-481-4836

*by eh
with permission*

ATTORNEYS FOR TEXAS
COMPETITIVE POWER ADVOCATES

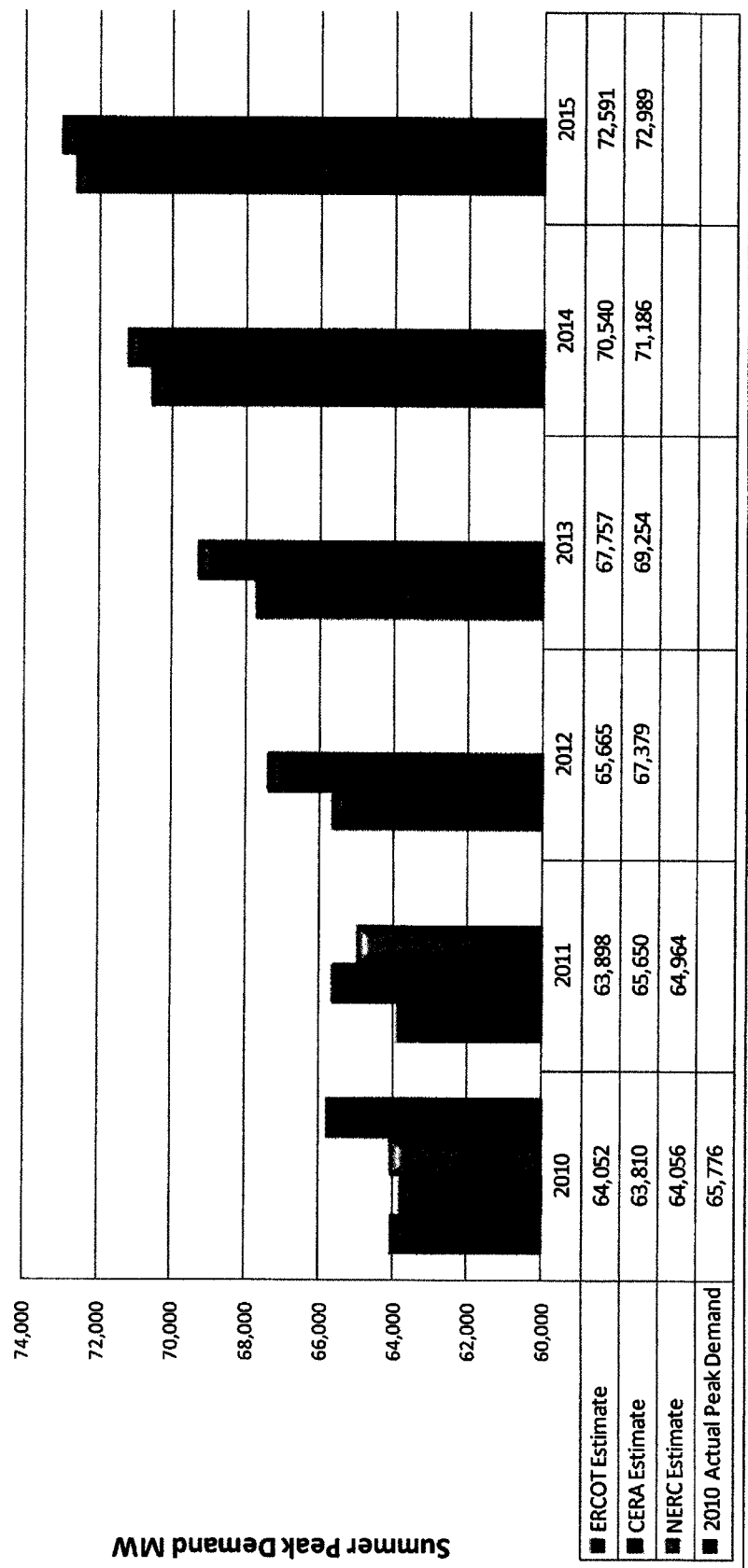
ERCOT Reserve Margin Estimates



Sources:
 ERCOT: May 2010 & June 2011
 ERCOT: May 2010 & June 2011
 Cambridge Energy Research Associates (CERA): March 2010 & May 2011
 North American Electric Reliability Corporation (NERC): May 2010 & May 2011



ERCOT Summer Peak Demand Estimates



Sources:
ERCOT: May 2010 & June 2011
Cambridge Energy Research Associates (CERA): March 2010 & May 2011
North American Electric Reliability Corporation (NERC): May 2010 & May 2011