Control Number: 40000

Item Number: 149

Addendum StartPage: 0

12 MAY 29 PM 4:06
PUBLIC UTILITY COMMISSION
FILING CLERK

PROJECT NO. 37897

PUC PROCEEDING RELATING TO RESOURCE AND RESERVE ADEQUACY AND SHORTAGE PRICING	§ § § §	PUBLIC UTILITY COMMISSION OF TEXAS

COMMENTS OF SOUTH TEXAS ELECTRIC COOPERATIVE INC.

Comes Now South Texas Electric Cooperative, Inc. (STEC) and files its comments in response to the proposed new rule relating to the High System-wide Offer Cap in the ERCOT Power Region. The rule will expire when the companion rule published in PUC Docket NO. 40268 becomes effective in 2013. STEC appreciates the opportunity to file comments concerning this important issue. STEC is sympathetic to the Commission's desire to incentivize new generation. However, in this instance, STEC opposes the proposed rule because of its belief that the proposed rule cannot accomplish the stated purposes for its adoption. The preamble to the rule provides two reasons for its promulgation. First, it states that the rule is to further encourage generation resources to be on line and help ensure that there is adequate generation in the ERCOT market. Second, the rule is said to provide a greater incentive for loads to voluntarily reduce their demand during times of scarcity. It is simply impossible for new generation to be constructed and brought on line during the time the rule will be in effect. It is also doubtful that the proposed rule will cause load to significantly reduce demand during times of scarcity. However, the rule's adoption will increase the cost of electricity for all classes of consumers throughout the ERCOT Power Region. This would adversely affect these consumers and the Texas economy.

STEC submits that any new generation that comes on line during the effective period of the rule would have been planned long before this rule becomes effective or even talked about. New simple cycle generation takes at a minimum 18 months to be brought on-line. This could only happen if the generator already had financing for the project and a site with ample available natural gas and water. The developer would also have to have the permit application ready to submit and have a contractor available with similar installation experience to cut back on time needed for engineering. Even then, everything, including permitting would have to proceed without any problems. For

149

instance, it took STEC approximately two years to bring on-line its Pearsall project – one of the newest thermal generation projects in the ERCOT region. The project began in early January 2008 and the units were declared commercial with ERCOT in spring 2010. In that instance, STEC already had financing for the project and the site for the project.

Simple cycle units can usually be obtained without delay. However, to obtain combined-cycle units takes a longer lead time. A permit must be obtained before any dirt can be removed for such jobs as foundation work. A permit can normally be obtained in 12 months for natural gas generation. Yes, under general rules a permit can be obtained in 45 days, but there are limitations on the amounts of emissions that may be authorized under a general operating permit rendering generation contributions from these sources insignificant. The units for the Pearsall project were ordered at the time the project was started.

However, a more realistic scenario would be closer to 24 to 30 months for a simple cycle unit where the developer must secure financing and the site for the project, draft a permit application, and engineer the balance-of-plant equipment. Combined cycle installations would be an additional 6 to 12 months depending on configuration and equipment lead times at the time the order is placed. The current economic climate has greatly complicated financing of generation projects, potentially extending the timeline for these projects. It takes time to secure the site for the project. There must be ample natural gas and water available. The generator also needs to model to determine the impact of emissions. Thus, in the best of circumstances this rule cannot be credited with incentivizing new generation.

Certainly, some may argue that the rule will encourage moth-balled units to be brought on-line. However, the rule is not needed for this purpose. ERCOT already has the power to enter into contracts to bring such units on-line so long as the contract ensures the units will make a profit.

It is also doubtful that any load that wouldn't already reduce their demand will voluntarily do so during periods of scarcity pricing. Most consumers will not know when scarcity pricing is in effect. If the Commission wants load to reduce their demand it should reward consumers for doing so by allowing them to be compensated by their participation in SCED thus having opportunities similar to those of a generator.

Member cooperatives, REPs, and municipal utilities should be encouraged to reduce their demand by allowing their retail customers to share with them the financial benefit obtained by their participation in SCED. STEC believes this could have the potential for significant reduction in demand during periods of scarcity.

STEC believes the rule will cause consumers to see a sizable increase in their electric bills. Heat rates for August are already much higher than they are for July within ERCOT. STEC acknowledges that this is caused in part by the higher temperatures expected for August. However, past experience says the high cap offer will be reached quickly as it always has in the past. Moreover, the recent changes in the Nodal Protocols were made for the express purpose of allowing power prices to increase. The Commission must also recognize electric prices will significantly increase as the significantly higher than projected cost of the CREZ transmission is energized. The Commission must recognize that high electric prices can have an adverse effect on the Texas economy. Consumers will have less disposable income to spend, thereby adversely affecting sales tax revenue. The high price of electricity can also dampen the development of new businesses in Texas and needed new job growth.

STEC recognizes that the motivation for the proposed rule was admirable. However, STEC submits the facts show that it will not accomplish the objectives motivating its publication and that its adoption will not be in the public interest.

Respectfully submitted,

Jo Campbell
Attorney for STEC
State Bar No. 03707800
PO Box 154415
Waco, Texas 76715
(254) 799-2978
(254) 799-2217 (facsimile)
E-mail: jocampbell@stec.org