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PROJECT NO. 37897

PUC PROCEEDING RELATING TO  
RESOURCE AND RESERVE  
ADEQUACY AND SHORTAGE  
PRICING

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PUBLIC UTILITY COMMISSION  
OF TEXAS

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**TEXAS INDUSTRIAL ENERGY CONSUMERS' COMMENTS**

Texas Industrial Energy Consumers (TIEC) submits these comments in response to the questions posed in the Commission's Public Notice of Workshop on Resource Adequacy and Shortage Pricing in ERCOT.

**RESPONSE TO COMMISSION QUESTIONS**

- 1. *Does Texas have the right scarcity pricing and resource adequacy mechanisms in place for the ERCOT and non-ERCOT regions to ensure reliable electric service in the future?*

TIEC members operate energy-intensive businesses throughout the state of Texas. Ensuring that there is an adequate supply of reliable, economic electricity is one of TIEC's chief objectives. TIEC supports allowing the market to operate to ensure that adequate generation is available, including allowing market price signals to stimulate development of new capacity.

There has been no indication that the existing energy-only market design and pricing structure in ERCOT is failing to incentivize sufficient capacity. However, some have cited two recent events to question whether the ERCOT market is appropriately incentivizing sufficient capacity: (a) the February 2<sup>nd</sup> rolling blackouts, and (b) ERCOT's release of the Capacity, Demand and Reserves (CDR) report. Neither of these events indicate that there is a problem with the current market design.

As has been conclusively shown, the rolling blackouts in February were not the result of a lack of installed generating capacity; rather, they were the result of an extreme weather event

and the failure of a number of generation units to perform during the severe weather conditions. This is an *operating reserves* issue and has nothing to do with whether sufficient generation resources are being built to serve the ERCOT market. There was ample installed generation capacity to meet the needs of the market on February 2<sup>nd</sup>. In fact, during similar extreme weather later in the same week, ERCOT was able to maintain sufficient operating reserves, and generation resources were sufficient to meet demand. The events of February 2<sup>nd</sup> should not be interpreted as reflecting a shortage of installed capacity, nor as an indication that the existing market design is not sending appropriate price signals to ensure that sufficient generation capacity will be efficiently developed.

The recent CDR report is also not a reason to reexamine the existing market design. While the CDR report can be a useful tool, it provides only an administratively determined estimate of future loads and generation based on current knowledge and conservative assumptions. The limitations inherent to the CDR report have been illustrated over the past few years. Because the market incentivizes new generation as it is needed, projections that capacity will dip below an acceptable margin have historically not materialized. For example, the 2006 CDR Report projected that the capacity reserve margin would be 4.5% in 2011. Similarly, the 2007 CDR Report projected that the margin this year would be 6.7%. Since those projections, the market has functioned as it was intended to bring new generation online, so that according to the new CDR report the margin for 2011 is a healthy 17.5%.

Questioning future reserves in response to a new CDR report is by no means a new phenomenon in ERCOT. For example, even in 2001 with a 25% margin, the Commission “was concerned whether there were appropriate incentives to maintain a sufficient reserve margin in

the future.”<sup>1</sup> The Commission initiated Docket No. 24255 to examine the issue of whether “capacity reserve margins should be left to market forces, or whether other means should be created to help ensure a minimum reserve margin.” The result of that docket was to “allow prices to rise in response to a scarcity of resources in the market,” using “competitive rather than regulatory methods” to facilitate sufficient capacity.<sup>2</sup> This decision has proven to have been the right one. Despite the concerns expressed by some, the market has continuously responded and new resources have been added. The Commission should continue to allow market forces to incentivize new capacity rather than taking any administrative or regulatory actions, which could add unnecessary costs to the market and interfere with the development of appropriate resources.

2. *Should the Commission establish reliability requirements by rule rather than relying on ERCOT and the stakeholder process?*

TIEC assumes that this question contemplates rules that would address reliability issues relating to providing energy and ancillary services in the ERCOT market. TIEC is not opposed to the Commission considering whether it should adopt general reliability policies. However, the Commission should carefully analyze the impact of any proposed reliability rules and, if it adopts such rules, should provide ERCOT and the market sufficient flexibility to efficiently implement the specifics of the rules.

In addition, the Commission must ensure that any reliability rules it considers are consistent with and not duplicative of existing federal requirements. Requiring ERCOT and market participants to attempt to meet different or inconsistent standards promulgated by separate governmental entities would be inefficient and potentially costly.

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<sup>1</sup> See Docket No. 31972, Final Order at 5-6 (Aug. 24, 2006).


<sup>2</sup> *Id.* at 8.

## CONCLUSION

TIEC's member companies rely on the ERCOT market to ensure that electricity is reliably and efficiently provided, which is essential to their global competitiveness. The market has performed well in this regard. Given this, the Commission should be skeptical of claims that changes are needed. Proposals that would interfere with the efficient operation of the market or add unjustified costs should be rejected. TIEC looks forward to working with the Commission and stakeholders in continuing to examine these issues.

Respectfully submitted,

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