



Control Number: 40000



Item Number: 223

Addendum StartPage: 0

PUC PROJECT NO. 40268

RECEIVED
12 JUN 29 PM 3:04
PUBLIC UTILITY COMMISSION
FILED CLERK
BEFORE FILE

PUC RULEMAKING TO AMEND PUC §
SUBST. R. 25.505, RELATING TO §
RESOURCE ADEQUACY IN THE §
ELECTRIC RELIABILITY COUNCIL §
OF TEXAS POWER REGION §

PUBLIC UTILITY COMMISSION
OF TEXAS

**TEXAS ENERGY ASSOCIATION FOR MARKETERS'
REPLY COMMENTS**

The Texas Energy Association for Marketers (TEAM) files its Reply Comments to the Proposal for Publication of Amendments to P.U.C. SUBST. R. 25.505 as Approved at the April 12, 2012 Open Meeting. The proposed rule would increase the high system-wide offer cap (HCAP) by \$6,000 in \$2,000 increments beginning June 1, 2013, making the cap \$9,000 per megawatt per hour on June 1, 2015.

I. Introduction

TEAM appreciates the dedication demonstrated by the Commission, Commission Staff, and ERCOT market participants to the difficult issues raised in this project and looks forward to continue contributing to the development of resource adequacy solutions in this Project and in Project No. 40480. Though there was not complete agreement on all of the policy determinations related to resource adequacy that must be made in the near future, the various comments do seem to present significant areas of coalescing views. It appears that ultimate analysis of the advantages and disadvantages of the five Brattle Group Study policy options and other policy proposals may lead to more areas of consensus. The widespread support for the Commission's decision to thoroughly examine all possibilities framed up by the Brattle Group in Project No. 40480 signals that the Commission's leadership will move the market forward with a sustainable market design that will provide reliable, efficient, and affordable electricity in the ERCOT market. Given the Commission's decision to move the HCAP to \$4500 made in Project No. 37897, it appears that the focus of this rulemaking should be on what additional

1 223
1 2
1

changes, if any, are needed to be applicable in the interim period (2013 and 2014) before any other changes falling out of Project 40480 can be implemented,

II. The HCAP Should be Raised No Higher Than \$4,500

TEAM agrees with the broad consensus¹ among the ERCOT market participants that submitted comments in this project that the HCAP should not be raised above \$4,500 that the Commission just approved. Increasing the HCAP any further will likely increase prices to consumers as forward bilateral prices rise in response to the new cap being triggered by the deployment of RUC, RMS and other administrative mechanisms recently approved at ERCOT. If this increase provides positive signals to generators and their investors that new generation investment in ERCOT is warranted, however, the increased reliability achieved may justify the increased consumer costs.

Raising the HCAP beyond \$4,500 at this time is unwarranted, however, as the price impacts of the 2012 ERCOT NPRRs and the \$4,500 HCAP cannot yet be analyzed. Further bolstering this position is the conclusion of the Brattle Group Study that a high offer cap alone will not incent sufficient generation to meet ERCOT's 13.75% reserve margin requirement. TEAM joins with the many ERCOT market participants who commented that time is needed to analyze and consider the policy options offered by the Brattle Group Study along with other policy options that may be provided in comments or at the workshops scheduled for Project No. 40480.

III. Every Policy Option Must be Considered

TEAM agrees with the Commission that the first step of the analysis must be to consider the policy decisions about the level and character of the appropriate reserve margin. If the Commission concludes that the reserve margin should be maintained as a required 13.75%, the Brattle Group seems to support the position that something other than status quo (with a \$4500 HCAP) may be required to meet this requirement in 2014.

A number of ERCOT market participants, particularly generators, commented that the Commission should not consider any type of backstop generation purchase as that would have

¹ Parties supporting an increase to \$4,500 but not beyond include LCRA, CPS, Luminant, Group of Competitive Texas Power Suppliers, Calpine, Topaz, and TIEC.

deleterious effects on the market and signal “market failure.” TEAM proposed such a policy in its Initial Comments and continues to advocate that it be considered as one possible interim solution to resource adequacy concerns while a long-term solution is analyzed. The criticisms of the backstop generation purchase proposal primarily assert that such a purchase would de-incentivize generators from making investments independent of the backstop capacity payment and that the presence of the backstop could depress market prices further.

If the backstop generation capacity were being used as an ongoing policy to maintain a set reserve margin, these criticisms might have more applicability. As an interim step to ensure that there is sufficient electricity in ERCOT while a more significant market redesign is studied and implemented, however, the danger of such negative effects is small. The addition of backstop capacity generation could be structured in a way that did not disrupt the market and only applied in lieu of black-outs, when the market failed to produce a sustainable balance of resources. The Commission should consider whether backstop generation capacity could be priced outside the market, based on submitted RFPs, and then would not prevent scarcity pricing from occurring up to the point when curtailment of load became imminent at which point it would be deployed to prevent involuntary load shedding. Finally, the time-limited nature of the capacity payments made to build the backstop generation would ensure that it would be placed on an even footing with other generators when a new ERCOT market design was implemented.

Given the negative effects on the market associated with a cap of \$9000 in the absence of the ability of load to offer meaningful demand response to that price, it is important for the Commission to consider other options for the interim period (2013 and 2014). Also, other commenters who argue against consideration of an interim backstop do not appear to refute the conclusion in the Brattle Report that even raising the cap as high as \$9000 would not provide a reserve margin sufficient to match current levels.

Whether or not the Commission ultimately decides to employ backstop generation capacity as an interim resource adequacy measure, it should not be “taken off the table” at this stage when numerous policy proposals have been made and none have yet been fully analyzed.

IV. Conclusion

TEAM appreciates the opportunity to provide comments in this project and looks forward to participating in the development of resource adequacy policy in this Project and Project

40480. TEAM supports full consideration of all options presented by the Brattle Report in those future proceedings.

Respectfully submitted,



Catherine J. Webking
State Bar No. 21050055
(512) 542-7036
(512) 542-7236 (Fax)
cwebking@gardere.com

Andres Medrano
State Bar No. 24005451
(512) 542-7013
(512) 542-7223 (Fax)
amedrano@gardere.com

GARDERE WYNNE SEWELL LLP
600 Congress Avenue
Suite 3000
Austin, Texas 78701-2978

**ATTORNEYS FOR TEXAS ENERGY
ASSOCIATION FOR MARKETERS**