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PROJECT NO. 40268

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

AARP'S REPLY COMMENTS

June 29, 2012

As a nonprofit, nonpartisan social welfare organization with a membership and offices in all 50 states, AARP's mission is to help people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. We seek to help older Americans live long and healthy lives. Affordable and reliable electricity is essential to achieving that. AARP represents about two million Texans and is the state's largest organization representing the needs, views, desires, and hopes of Texas' 50+ population. AARP appreciates the opportunity to comment in this proceeding.

AARP's view is that (1) the Commission should take an appropriately deliberate approach to modifying the current market rules; (2) no changes should be made without an analysis of the costs to consumers; and (3) no changes should be made without reasonable assurance that the policy chosen will achieve reliability goals.

At this point, the policy changes under consideration are being rushed along without appropriate analysis of the costs to consumers or assurance that the changes will be effective.

1. The Commission should take an appropriately deliberate approach to modifying the market rules.

The Commission should proceed cautiously in its efforts to address reliability concerns in ERCOT by increasing the likely revenue streams to generators. While system reliability is of the utmost importance, it is also important that any changes to the market be made in a thoughtful and well-informed manner.

The June 15, 2012 *Comments of the Steering Committee of Cities Served by Oncor* point out that the Brattle Report recommends "deliberate, careful action supported by data and analysis" (comments, page 2). AARP agrees with Brattle and with the Cities in this

regard. It will be important to be thoughtful and informed in making changes to the market given the issues at stake can have enormous impacts in terms of system reliability and costs to consumers. The reliability objectives should be well formulated and policies to achieve those objectives should be carefully analyzed. The likely costs of implementing changes are also critically important. The Brattle Report and the rest of the record in this proceeding (Project No. 40268) have almost no information about, or even estimates of, the expected costs to consumers of the various approaches. A rush to action puts consumers at risk of potentially billions of dollars in increased rates with no guarantee of improved reliability.

2. No changes should be made without analysis of the costs to consumers.

The potential costs to consumers of the market rule changes are enormous. Two of the major participants in this discussion, ERCOT and Brattle, did not even consider customer costs. That is a major shortfall and one that the Commission should acknowledge and seek to remedy.

One of the respondents, Texas Industrial Energy Consumers (TIEC Initial Comments, page 1), did make an estimate of the possible electricity cost impact of raising the energy market system wide offer cap. If the current cap is increased to \$9,000/MWh, TIEC estimates additional overall costs of \$13-14 billion per year. That is a huge price to pay to attempt to encourage the addition of new resources.

For comparison, an expenditure of \$14 billion based on a new capacity cost of \$1000/kW would purchase 14,000 MW of new capacity. This amount of new capacity would raise the ERCOT system reserve margin by about 20 percentage points, e.g., from a 13 percent reserve margin to a 33 percent reserve margin.

The long-term policy options considered in the Brattle Report should be analyzed for their expected and "worst case" impacts on Texas electricity customers. Similarly, any short-term adjustments such as raising the energy market price cap, should be evaluated in terms of their expected and potential impacts on Texas consumers.

Examining the policy options from the perspective of an average or typical residential consumer, and the impacts on such a customer's electricity bill, is an obvious and essential element in regulating responsibly.

3. No changes should be made without reasonable assurance that the policies will work.

Under the ERCOT market structure, if market changes, such as the raising of energy market price limit, are implemented there is no guarantee the additional capacity will be brought online or that system reliability will be maintained. In other words, customers are in the position of paying for the cost of the market changes and they should have

reasonable assurance that any money involved will produce results in terms of new capacity additions, and even more importantly in terms of adequate system reliability.

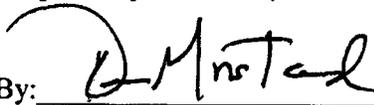
There is substantial evidence in US electricity markets that energy market price spikes are an ineffective and inefficient means to encourage actual new capacity to be added to the grid. Concerns about the ineffectiveness and high costs of relying on volatile, energy-only revenues were a key factor in the development of capacity structures in RTOs such as PJM, New York, and New England. To attract investors that can finance power plant construction projects at a reasonable cost typically requires a cash flow projection that shows reasonably stable revenues from the sale of the plant's output. Long term contracts, and to a lesser extent "capacity markets," can provide some assurance to the developers and investors in new projects. Unpredictable and unreliable revenues from near-term energy market price spikes are more likely to result in windfalls for existing generators than they are to result in significant new capacity additions. Raising the maximum hourly energy price to allow greater volatility in prices may serve only to make matters worse.

The Commission should not make short term changes to the market rules. It should take up possible market changes in a deliberate, well-informed process that will allow any changes to be understood in terms of their impact upon Texas electricity consumers and implemented with sufficient lead times that market response in terms of new capacity additions is a reasonable possibility.

## CONCLUSION

Chairman Donna Nelson's June 12, 2012 memo described a process, starting with a "workshop in August for consideration of the options presented by the Brattle Group and any stakeholder proposals." That process would seem to be the appropriate opportunity to consider market rule changes, rather than the rushed and ill-informed process of Project No 40268. Prudent decisions about market structure and resource adequacy policy require reasoned consideration of alternatives and information about the costs to consumers.

Respectfully submitted,

By:  \_\_\_\_\_

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