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PROJECT NO. 40480

COMMISSION PROCEEDING
REGARDING POLICY OPTION ON
RESOURCE ADEQUACY

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PUBLIC UTILITY COMMISSION
OF TEXAS

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**BRAZOS ELECTRIC'S COMMENTS
ON THE BRATTLE REPORT
FOR THE JULY 27, 2012 WORKSHOP**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

NOW COMES Brazos Electric Power Cooperative, Inc. ("**Brazos Electric**"), and files these comments in response to the Public Utility Commission's ("**PUC**" or "**Commission**") Notice of Workshop in Project No. 40268, *Commission Proceeding Regarding Policy Options on Resource Adequacy* (the "**Policy Options Proceeding**"). In preparation of the July 27, 2012, workshop, the Commission requested in its Notice of Workshop that interested parties submit comments on recommendations in the Brattle Group, Inc.'s ("**Brattle Group**") report entitled "ERCOT Investment Incentives and Resource Adequacy" (the "**Brattle Report**") filed on June 1, 2012, by the Electric Reliability Council of Texas, Inc. ("**ERCOT**") in Project No. 40268, *PUC Rulemaking to Amend PUC SUBT. R. 25.505, Relating to Resource Adequacy in the Electric Reliability Council of Texas Power Region*.

Comments

Brazos Electric submitted comments in Project No. 40268¹ regarding the Brattle Group's five distinct policy options for long-term resource adequacy and their ten recommendations listed in Section VI and VII of the Brattle Report, respectively, that the Brattle Group identified for enhancing several design elements to make the ERCOT market more reliable and efficient (referred to herein as "**Market Enhancements**"). As stated in its previously filed comments,

¹ Brazos Electric Initial Comments at 2 (June 15, 2012).

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Brazos Electric believes that the Commission, from a policy perspective, should adopt rules leading to the market design and implementation of mandatory resource adequacy for all load serving entities ("LSEs"), largely in the form of the Brattle Report's Option 4.

Brazos Electric believes that Option 4 is the preferred option of the five policy options contained in the Brattle Report for various reasons. First, Options 1, 2, and 3 of the Brattle Report do not provide a viable long-term solution to ERCOT's resource deficit, while Options 4 and 5 do promise to provide a lasting solution. More importantly, Brazos Electric believes that Option 4 will be easier to implement than Option 5, particularly if the solution incorporates a methodology akin to the procedures used for the existing ERCOT Renewable Energy Credit ("REC") program (*i.e.*, LSEs could be required to purchase and retire generation capacity credits). Brazos Electric believes if Option 4 is implemented, penalties for LSEs who fail to meet their respective resource adequacy mandates should be set above the costs of new entries ("CONE") levels in order to maintain alignment of incentives.

Second, Option 4 avoids some of problems experienced by centralized capacity markets in other regions. These problems include implementation of complicated rules to set new caps for market prices for capacity based on the CONE, litigation over many of the parameters comprising the CONE, and how centralized markets are more susceptible to large players exerting market power for establishing prices, especially in load areas with limited transmission to transfer energy between constrained areas. Brazos Electric is also concerned that rules to mitigate market power issues will be complex and create future regulatory uncertainty.

Third, because Option 4 will be dependent on bilateral market activity to assign available capacity to LSEs, loads in ERCOT will benefit from the innovation and economic efficiency left to market participants to develop new resources. The function of bilateral markets has played a successful role in the ERCOT market since its inception in 2001, and Brazos Electric recommends that this tradition be maintained.

Brazos Electric views adoption of the Brattle Report's Option 4 as a more certain means to economically motivate the market to build sufficient reserves. A stable functioning market under the Battle Group's Option 4 will set long-term market prices between participants and provide the means and incentives for construction of new resources. Furthermore, the risks of exposure to extremely high market prices (via the \$9,000 ERCOT high system-wide offer cap ("HCAP") examined in the Brattle Report) will be an impediment to the firm sale of forward

capacity from generators due to the large potential liabilities for generators in instances when there is an inability to meet contract obligations. Such forward sales are an integral part of the bilateral market needed to support the function of the Brattle Report's Option 4 market design.

Furthermore, in its comments filed in Project No. 40268², Brazos Electric stated it generally supports most of the Market Enhancements in the Brattle Report and that these Market Enhancements should be further developed jointly between ERCOT staff and market participants for ultimate implementation by ERCOT. This joint development should be done in parallel with raising the HCAP in accordance with rule revisions adopted in Project No. 40268. Specifically, Brazos Electric recommends that the Brattle Group's Market Enhancements (5), (6), and (7) should be addressed by ERCOT to improve price signals to generators and develop demand response that can respond to high prices.

Respectfully submitted,
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² Brazos Electric Initial Comments at 2 (June 15, 2012).