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COMMISSION PROCEEDING §
REGARDING POLICY OPTIONS ON §
RESOURCE ADEQUACY §

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**TEXAS INDUSTRIAL ENERGY CONSUMERS' COMMENTS
FOR COMMISSION WORKSHOP**

I. INTRODUCTION

Texas Industrial Energy Consumers (TIEC) appreciates the opportunity to submit these comments and questions in anticipation of the July 27 workshop. TIEC members conduct energy-intensive industrial processes that depend upon a continuous, reliable electricity supply. It is therefore critical, from TIEC's perspective, that an appropriate level of reliability be maintained in ERCOT. However, reliability must be balanced with other considerations, like cost-effectiveness and development of an efficient market. Capacity mandates or reliability standards that are excessively conservative can create unjustified costs and market inefficiencies without providing any real additional benefits to consumers.

II. GENERAL COMMENTS ON THE RESERVE MARGIN

A. Re-examining the current reliability standards and how the reserve margin is calculated in ERCOT is appropriate, and does not mean that reliability will suffer.

The Brattle Report suggests that the Commission re-examine and clarify its reliability objectives, including how the target reserve margin is set, how the current reserve margin is calculated, and what the reserve margin means from a policy and market design perspective. TIEC agrees that these issues deserve further consideration from the Commission.

Some market participants have implied that this re-examination equates to reducing reliability in order to make a target reserve margin more achievable. TIEC disagrees with this characterization. Reliability is of the utmost important to TIEC members, whose businesses depend upon having access to reliable, competitively priced electricity. TIEC would not support a result-oriented reduction in reliability standards for the sole purpose of making the goal more achievable. However, to the extent that reliability standards and the reserve margin calculation are unduly conservative or inconsistent with competing policy objectives, a reasoned examination of what the proper metric should be and how it should be treated for policy purposes is appropriate.

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Reducing the target reserve margin does not mean that ERCOT customers will experience reduced reliability. The reserve margin is a targeted amount of capacity above what is actually expected to be needed to serve peak load under normal weather conditions, and based on normal contingencies. When operational or weather-related contingencies do occur, reserves can be called upon to manage these contingencies. However, as the Brattle Report properly recognized, the targeted amount of reserves must match the appropriate reliability objective, and it must also match the type of market that it is meant to operate within. Protecting the system against extremely unlikely events—either through an unduly conservative load forecast or excessive target reserve margin—is not prudent or cost-effective. Therefore, the Commission should ensure that the right balance is struck, and should not assume that more capacity is necessarily better without examining the additional costs and the likelihood that the capacity will actually be needed.

B. TIEC opposes interfering with the competitive market through capacity mandates and does not believe such mandates are necessary to maintain reliability.

An energy-only market should be designed to appropriately incentivize new generation development through appropriate scarcity pricing and proper market rules. TIEC does not support adopting arbitrary capacity mandates, which are not driven by market forces and interfere with the operation of a truly competitive market. Such mandates have proven costly and inefficient in other markets, lack appropriate flexibility, and have often failed to provide reserves. TIEC believes that a proper energy-only market can be both reliable and efficient, and that the Commission should maintain its commitment to the energy-only framework.

TIEC disagrees with suggestions by certain parties that the Brattle Report indicates that an energy-only market will not maintain appropriate resource adequacy. To the contrary, the Brattle Report agrees that with certain changes to the current market design, including an increased price cap, an appropriately designed administrative scarcity pricing curve, and increased demand response, an energy-only market design can meet ERCOT's current reliability objectives.¹ The fact that an energy-only market does not include a *mandated* capacity reserve margin should not be misconstrued as an indication that energy-only markets are not reliable. Since its inception, the ERCOT energy-only market has been exceedingly reliable and has

¹ Brattle Report at 3.

incentivized the development of significant new generation, while maintaining unparalleled efficiency and flexibility. Under the framework broadly suggested by the Brattle Report, TIEC continues to believe that the ERCOT market can deliver long-term resource adequacy without unnecessary and costly capacity mandates.

III. QUESTIONS FOR THE WORKSHOP RELATED TO RELIABILITY

TIEC understands that the focus of the upcoming workshop is to consider the reliability standards and the meaning of those standards from a policy perspective. TIEC looks forward to discussing other recommendations in the Brattle Report at the appropriate time. TIEC submits the following questions related to the policy issues surrounding the appropriate reserve margin:

1. Please identify any independent system operators (ISOs) besides ERCOT that use the ERCOT-defined "1 outage event in ten years" as their reliability standard. Please generally discuss how other ISOs apply a "1-in-ten-years" standard (i.e., as one day in ten years, one event in ten years, etc.).
2. Does the Brattle Group have information on how long ERCOT has been using a "1 outage event in ten years" standard, or whether a different standard was used in the past?
3. What does the Brattle Group recommend as the appropriate weather-normalization process for setting the load forecast in calculating the reserve margin? Do other ISOs use a 30-year weather normalization process? If not, what do other ISOs use?
4. Please provide any general comments on the accuracy of ERCOT's load forecast and any shortcomings or improvements that could be made. For example, please discuss the 1700 MW error (discussed in the Brattle Report on page 55) and any other similar errors.

IV. CONCLUSION

TIEC appreciates the Commission's consideration of these issues and looks forward to participating in the July 27 workshop.

Respectfully submitted,

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