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PROJECT NO. 40480

PROCEEDING REGARDING
POLICY OPTIONS ON RESOURCE
ADEQUACY

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PUBLIC UTILITY COMMISSION
OF TEXAS

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**JOINT COMMENTS OF THE
GROUP OF COMPETITIVE TEXAS POWER SUPPLIERS**

Calpine Corporation; Exelon Corporation; IPR-GDF SUEZ Energy North America, Inc.; Luminant Energy Company LLC; Luminant Generation Company LLC; NextEra Energy Resources, LLC; and NRG Energy, Inc. (collectively, the "Group of Competitive Texas Power Suppliers" or "Group") submit these comments in response to the Public Utility Commission of Texas ("PUCT" or the "Commission")'s request for comments on the long-term reliability objective for ERCOT.

I. SUMMARY OF COMMENTS

The Group of Competitive Texas Power Suppliers believes that the Commission should establish an annual planning reserve margin requirement that maintains, at a minimum, the current 13.75% planning reserve margin that is a level of reliability based on a 1 in 10 year loss of load event. Further, the current planning reserve margin target of 13.75% is unlikely to be achieved with the existing energy only market design. The Group additionally believes that the currently fluctuating reserve margins and the impact of those fluctuations on real-time reliability are not an acceptable outcome from a public policy perspective.

A reliable electric system is the backbone of economic development and is expected by the citizens of Texas. Unlike many other parts of the United States, Texas has enjoyed robust economic growth as new residents arrive and businesses relocate to Texas. This has caused electricity demand in the ERCOT region to grow more than 2% per year. Therefore, it is imperative that the ERCOT region continue to provide competitive prices and a reliable electric system to maintain consumer expectations and attract new investment.

The Group agrees with the approach that has been outlined by the Commission that first, a long-term reliability objective should be established, and then market design changes should be developed to achieve that objective.

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In accordance with the June 27, 2012 Notice of Workshop, the Group will be addressing the reliability target for the ERCOT region. The Group looks forward to providing input on the market design options in future workshops and comments.

II. COMMENTS

The Group of Competitive Texas Power Suppliers makes the following comments with respect to the specific question asked by the PUC:

What should be the long-term reliability objectives for ERCOT?

Simply put, the Group believes that (a) a long-term reliability objective for ERCOT should be established and linked to changes in the existing market design to achieve that objective, and (b) the objective should be no less than the existing planning reserve margin, which is based on a one in ten year loss of load event, currently calculated to be 13.75%.

As currently designed, the ERCOT energy only market is not meaningfully linked to mechanisms to achieve the existing reserve margin target of 13.75%. An energy only market may be economically efficient in theory, but in reality it produces extreme price fluctuations and ever-decreasing reserve margins that are unlikely to meet the public's expectations, including the expectations of industries that operate in this state or may be considering locating here. An energy only market, even with the adjustments proposed in the Brattle Report, is reliant on administrative scarcity prices to generate the revenues necessary to recover costs and provide incentives for new investment. We find ourselves in a position where the current ERCOT Capacity, Demand and Reserves Report indicates the region will fall below the reserve margin target, leaving the Commission at a difficult crossroad. The Brattle Report indicates that the planning reserve margin under the current design would achieve a 6.1% margin and would achieve only a 10% reserve margin with a system wide offer cap of \$9,000.

The Brattle Report P4 states:

“On average, the 10% reserve margin achieved with a \$9,000 offer cap would result in approximately one load-shed event *per year* with an expected duration of two-and-a-half hours, and thirteen such events in a year with a heat wave as severe as the one in 2011. In years with less extreme weather than 2011, however, load shedding would be expected to occur less than once in ten years.”

Hence, the Group believes that the Commission needs to establish a reliability objective along with necessary design changes that preserve the levels of reliability that customers in this state have come to expect.

The current ERCOT 13.75% annual planning reserve target is derived from a one in ten year loss of load event, and is generally perceived as a level that provides an appropriate reliability objective for ERCOT. This target, based on a one in ten year event, is largely consistent with the reliability targets that have been associated with high reliability levels achieved in other organized markets.¹ The Group believes that reliability in ERCOT should at least be comparable to the reliability standards in other organized markets and is critical to the continued economic growth of Texas.

III. CONCLUSION

The State of Texas is widely known as a leader in attracting new investment with its business friendly environment. The Group firmly believes that it would be damaging to the continued economic growth and expectations of those within the ERCOT region to reduce the expected reliability of the electric system. The Group is committed to supporting continued efforts to explore options identified in the Brattle Report to ensure ERCOT meets the goal of continuing to provide a reliable electric system and a robust competitive market to the benefit of those current and future Texans in the ERCOT Region.

The Group appreciates the opportunity to provide comments on the proposed rule.

¹ For example, PJM has adopted Loss of Load Event criterion of one in ten years, as stated in the Reliability First Corporation standard, BAL-502-RSC-02, effective December 4, 2008 and approved by FERC, effective May 23, 2011.

Respectfully Submitted,

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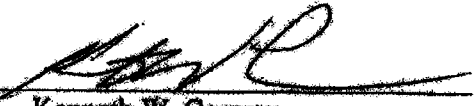
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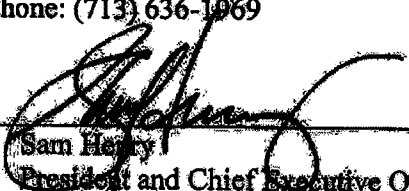
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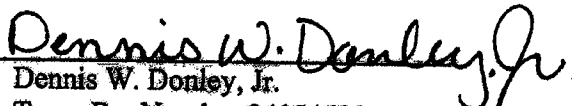
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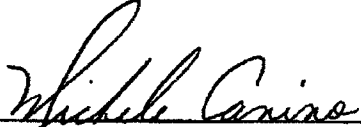
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