Control Number: 40000

Item Number: 287

Addendum StartPage: 0

PROJECT NO. 40000

COMMISSION PROCEEDING TO ENSURE RESOURCE ADEQUACY IN TEXAS	**§ § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF CPS ENERGY

CPS Energy[1] offers comments in the above styled project on the issue of resource adequacy. These comments reflect positions taken in Public Utility Commission (Commission or PUC) Docket 40268.

I. INTRODUCTION

As described in the Brattle Report[2], broader policy decisions will drive the best market design and ultimately the ideal offer caps.[3] Once the Commission evaluates and defines resource adequacy objectives, then it can set the best policy path. CPS Energy urges that the highest priority is examining the reliability objectives. Is the one-in-ten year event standard the best for the ERCOT market? That decision drives the method by which the reserve margin is determined in any given year. Here the Commission must determine if market signals determine the reserve margin or if the reserve margin will be set administratively. A target, around which the reserve margin would vary, would demand one market design, while a minimum requirement, that guarantees a specific reserve margin, necessitates something different.

---

[1] CPS Energy™ is the trade name of City Public Service of San Antonio, acting by and through the City Public Service Board.
[2] *See* item 18 in Project No. 40268, ERCOT's Submission of the Brattle Group's "ERCOT Investment Incentives and Resource Adequacy Report" (Brattle Report).
[3] Brattle Report, p. 4 and p. 6.

287

If the reserve margin is a target, then an energy-only market design that embodies the Brattle Report recommendations[4] would be appropriate. However, if the Commission seeks to have a reserve margin that is a minimum requirement, a different market design is in order. Table 1 of the Brattle Report concludes that the market design with the best long-term viability and highest reliability is a capacity market. Importantly, the Brattle Report also demonstrates that an energy-only market cannot sustain a specific reserve margin[5], and for that reason the Commission first must determine the purpose of the reserve margin.

CPS Energy recommends that, if the reserve margin is a target, then a System Wide Offer Cap (SWOC) of $4,500, with a demand curve that may administratively set the price at $9,000, would be appropriate. While the Brattle Report recommends a SWOC of $9,000[6], such is not necessary. If the appropriate administrative pricing curve is constructed, comprising pricing points set by system conditions between $500 and $9,000, then the cap on offers by generators can be much lower. However, load would need to offer to be curtailed at prices as high as $9,000 so the offer cap for load would need to be higher than $4,500. In fact, a SWOC of $9,000 would not achieve the Brattle Report recommendation of a price point of $9,000 only when firm load-shed occurs[7] because offers also would be able to set the $9,000 price.

---

[4] *Id. at pp. 6-7*

[5] *Id.* at p.71. However the Brattle Report states that with sufficient DR penetration, the ERCOT loss of load target can be achieved on average. Nevertheless, on page 199, the report also states that, even with significant DR penetration, environmental revisions and other unforeseen unit retirements will bring the reserves below the 1 in 10 year target.

[6] *Id.* at p. 6.

[7] *Id.*, Recommendation (2) at pp. 6-7.

If the reserve margin is a minimum requirement, a capacity market with a centralized forward auction[8] would be best because a mandatory reserve requirement for Load Serving Entities (LSEs) requires rules and mechanisms that inevitably gravitate toward the former. Such a market would not require any increase in the SWOC. However, if the decision is made for a capacity market, such a design would need further discussion to determine the best course forward. And as described in the Brattle Report, a capacity market with a centralized auction will require the greatest level of market design changes.[9]

III. CPS ENERGY RECOMMENDATION

CPS Energy's position is dependent on the purpose of the reserve margin, which as yet is unclear and the Commission must determine.

If the reserve margin is a target that can be set by the market, CPS Energy recommends a design based on the Brattle Report recommendation. Specifically, CPS Energy advocates:

a) the creation of a demand curve with price points between $500 and $9,000 that run over thousands of megawatts;

b) a SWOC of $4,500;

c) making load participation in Security Constrained Economic Dispatch (SCED) the highest priority; and

d) removing as many of the market distorting measures in existence as possible.

[8] *Id.*, Option 5 of the Brattle Policy Options at p. 5.
[9] *Id*

CPS Energy believes greater discussion is needed on the demand curve concept, which should be a major discussion point in a future workshop either as part of this docket or another.

If the reserve margin is a minimum requirement, the only way to maintain a requirement at all times is through either a requirement to procure reserves on LSEs or a centralized forward capacity market. CPS Energy concludes that a reserve requirement on loads would create a set of circumstances that would lead to a centralized forward capacity market in the future because a requirement on loads is a less efficient methodology to accomplish a minimum reserve requirement. A centralized forward capacity market creates a transparent market for the reserves that are needed; a load obligation creates a requirement that is met bi-laterally. Therefore, if the Commission goes down a path creating a requirement, the middle step (imposing a capacity requirement on LSEs) should be skipped, and proceedings should be enacted to move straight to a market design that embodies a reserve requirement with a centralized forward capacity market. Further, recognition must be given to the fact that a capacity market is a significant time and resource consuming change.

A requirement with which LSEs must comply will necessitate rules, enforcement, penalties, and other regulatory measures in order to be functional. In such an environment, some form of clearing price auction of forward capacity—in other words a centralized forward capacity market—will be the most efficient. Because of the added efficiency, CPS Energy recommends the Commission make the full move, instead of getting there in a piece-meal process.

IV. CONCLUSION

CPS Energy appreciates the opportunity offered by the Commission to provide comments. The Brattle Report raised some very important considerations in this docket, requiring decisions that impact the optimal SWOC. First, the Commission must "define resource adequacy objectives for the bulk power system; and then (2) choose a policy path to meet those objectives"[10]. Those decisions will color everything else.

If the market retains the energy-only resource adequacy mechanism, CPS Energy supports most of the Brattle Report recommendations. However, two features appear to be contradictory. The Brattle Report recommends a $9,000 SWOC but states this price should only be realized when firm load is being curtailed.[11] A $9,000 SWOC would create such prices in more instances than when firm load curtailment occurs. Therefore, CPS Energy recommends a SWOC of $4,500, coupled with a demand curve that produces all of the price points recommended by the Brattle Report.

If the Commission decides a specific reserve margin is a requirement to be maintained at all times, the Brattle Report finds the option that guarantees the prerequisite reliability is a capacity requirement.[12] If the Commission chooses such a path, a centralized forward capacity market would be best. In this instance SWOC does not need to increase.

---

[10] *Id at p. 120.*
[11] *Id.*
[12] *Id at p. 119 Table 19.*

August 30, 2012

Respectfully submitted,

CPS ENERGY
P.O. Box 1771
San Antonio, Texas 78296-1771
(210) 353-6832 (Facsimile)
(210) 353-5689

Kathleen S Garcia for Kenan Ogelman

Kenan Ögelman
Director, Energy Market Policy
kogelman@cpsenergy.com
(512)542-7594