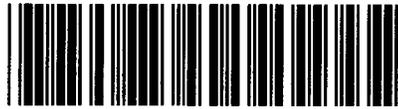


Control Number: 40000



Item Number: 291

Addendum StartPage: 0

Project No. 40000

RECEIVED
12 AUG 30 PM 4:18
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION PROCEEDING TO ENSURE § BEFORE THE PUC
RESOURCE ADEQUACY IN TEXAS §

COMMENTS OF THE LONE STAR CHAPTER OF THE SIERRA CLUB TO THE
HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

As requested in the Notice dated August 24, 2012, the Lone Star Chapter of the Sierra Club submits comments related to Project 4000, Commission Proceeding to Ensure Resource Adequacy in Texas.

We want to first remind the Commission of the steps already taken by the Legislature, ERCOT and the PUC that will help assure resource adequacy, and join those stating while there is a real issue of resource adequacy, much good work has already been done. We thus believe a gradual approach through the PUC and ERCOT is a better approach than a large deviation from the current market structure.

As an example, the PUC and ERCOT have already made changes to the SWOC, RMRs, RUC, Non-spinning and spinning reserves, begun the creation of a look-ahead market, increased the use of ERS, passed rules to encourage third-party ownership of onsite solar, passed rules related to energy storage settlements and are currently implementing an NPRR related to these energy storage price settlements. In addition, there are multiple stakeholders meetings occurring both at the PUC and ERCOT related to many important issues, including the potential for demand response to participate in SCED, Nodal 2.0, and co-optimization of energy and ancillary services in the real-time market through the Market Enhancement Task Force. Another recent effort is the creation of a new pilot program known as "**Fast-Responding Regulation Service**," which is an attempt to assess whether an additional ancillary service can help keep the system reliable and the lights on in Texas.

A number of other discussions and NPRRs related to incorporating energy storage and demand response into our energy market are also occurring as part of Market Enhancement Task Force and the Demand Side Working Group and should lead to improvements in our market which will help assure adequacy. The DSWG is also examining how to better report on and incorporate price-responsive demand response, energy efficiency and onsite generation in ERCOT's short and long-term planning and reserve margin predictions. These working group and committee discussions will lead to changes which will make our energy-only market work better and better let the market know the real needs

in Texas. While we will never be able to completely predict energy demand and supply, improvements in those capabilities will help avoid either inflating our needs, or being caught short of supplies at peak times.

Before commenting directly on the options discussed on Table 1 of the Brattle Report, we wanted to reiterate our belief that the PUC should move forward on three important projects. **First, we believe that ERCOT must move forward on NPRR 461, allowing settlement of energy prices for Energy Storage Resources, as authorized by the PUC.**

Secondly, we also want to reiterate our support for moving forward on implementation of the rules related to energy efficiency programs currently before the Commission, and believe that the PUC must approve a rule that is flexible enough for utilities to meet and exceed their goals. We view energy efficiency and demand response being provided by the Investor-owned Utilities as being an important component in assuring resource adequacy. While these are non-market programs, they are an important tool and should be taken advantage of to assure that the IOUs can flexibly meet their legislatively-mandated goals, and where appropriate, exceed them.

Finally, we again believe that the PUC has the authority and must move forward on the 500 MW target for non-wind renewables, which will create a market for new sources of energy. Separately, Sierra Club will be filing a petition for rulemaking to implement this long-underutilized statute passed by the Legislature in 2005.

Options for Moving Forward

The Sierra Club does not favor doing nothing – Option 1 – nor does it favor Option 5 – creation of a full capacity market, particularly without a more robust discussion about which entities would participate and how such a market would assure that capacity was being provided that meets our needs.

Instead, we believe the Commission should explore market enhancements that will create either the direct services or the incentives to provide additional generation and demand response to fill our needs. The truth is that Texas has sufficient generation and capacity most of the year, but what is needed is a multi-part strategy including demand response services, energy storage and generation to fill in the gaps at peak times and in certain “shoulder” months.

We read with interest the comments filed by the Regulatory Assistance Project – which suggest that additional ancillary services or even a limited capacity market could be created to meet specific quality services. Again, our “resource needs” are not all generation, but those sources which help Texas meet peak demand, and in a manner that does not exacerbate other issues, such as high costs, high water demand or deterioration of air quality standards.

A similar idea would be to create a new market mechanism related to the look-ahead market. Such a mechanism would create a new market that is neither the real-time market nor the day-ahead market but somewhere in between. This might benefit demand response, storage and fast-acting resources that are needed in our energy-only system, without creating huge capacity payments for generation resources that may never be needed.

While we are not opposed to exploring some sort of back-stop mechanism – whether assumed by ERCOT (Option 3) or each LSE through a Resource Adequacy Credit market (Similar to Option 4)– such an approach would need to be developed carefully and in our mind not extend to any kind of generation, but focus on those with the capability like storage or demand response and energy efficiency to actually deliver energy if needed. The timing – creating a single-year vs. a three or five-year market – is also important.

The Sierra Club reiterates its support for more limited changes to the energy-only market that focus on the types of energy and ancillary services that are actually needed, while moving forward with existing processes related to energy efficiency, demand response and energy storage. We look forward to continuing this important discussion.

Sincerely,



Cyrus Reed
1202 San Antonio, Austin, Texas 78701
Acting Chapter Director
Cyrus.reed@sierraclub.org
512-740-4086