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

SOUTH TEXAS ELECTRIC COOPERATIVE INC.'S
COMMENTS CONCERNING THE OPTIONS SET
OUT IN THE BRATTLE REPORT

Comes Now South Texas Electric Cooperative, Inc. ("STEC") and files its comments concerning the options set out in the Brattle Report to ensure resource adequacy in ERCOT. STEC appreciates the Commission's determination to ensure the reliability of available electric power for consumers within ERCOT.

STEC urges the Commission to continue to require the reliability standard of "1 load shed event in 10 years" which has long been used by ERCOT to determine the reserve margin necessary to ensure such reliability. STEC submits that requiring this standard is critical to the State's continued economic growth as well as the health and well-being of its citizens. Moreover, STEC believes a lesser reliability standard will undermine the support for a competitive market.

The Brattle report concludes that if ERCOT is to maintain this higher reserve margin requirement every year, imposing a resource adequacy requirement on load serving entities (LSEs) is the most market-based, efficient option.¹ STEC agrees. Option 4 is the least complex, least costly and least administratively-burdensome option. STEC believes it would lead to a competitive bilateral market ensuring least cost electricity.

¹ Brattle Report at 6.

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LSEs should be required to buy or self-provide enough capacity to meet their peak summer load plus their load ratio share of the mandated reserve margin or pay a penalty. Certainly, LSEs not meeting their resource adequacy requirement should have to bear the full additional cost that they place on the ERCOT system. Under the current system, LSEs who self-provide resource adequacy whether through their own generation or by contract are forced to share the additional cost caused by those LSEs that do not. This is unfair and does not keep with the principles of a competitive market. STEC believes that a bilateral market provides more optionality, allows an opportunity to negotiate forward for their capacity requirements, and the flexibility to determine when and how much capacity to procure whether through self-provision or through negotiated bilateral means. Moreover, every consumer should be able to determine from the LSE's web page whether the LSE from whom they are buying power has the firm resources available to provide them reliable power.

Several commenters have provided Option 4 implementation plans for both mandatory and voluntary plans. Although all of the plans have merit, STEC urges the Commission not to do more than select the reserve margin requirement and the option they would like the stakeholders to develop for implementation, with a list of issues that must be addressed. The lack of transparency with bilateral contracts could present problems for monitoring market power abuses as well as the ability for LSEs to hedge their cost of power. STEC believes these issues can be addressed in the Stakeholder process and that the Market Monitor can determine what may be necessary from Market

Participants to ascertain whether market power abuses are occurring. Since it doesn't appear that there are sufficient resources currently available for all LSEs to meet a mandatory reserve adequacy requirement, the additional capacity needed could be procured by ERCOT requiring the availability of necessary resources through the use of mothballed resources. Therefore, STEC believes the best way to successfully address these issues is through the collaborative efforts of all of the stakeholders.

Of the five options presented by the Brattle Report, options 1 and 2 will not support the reliability standard of "1 load shed event in 10 years". Option 3 could lead to sacrificing operational efficiencies and, as stated by the Brattle report, would be "attractive as an infrequent last result, but long-term reliance is inefficient, non-market based, and slippery slope."²

Option 5 would be more costly and would have a more negative impact on the efficiencies of an energy only market. STEC believes the implementation of an Option 5 type market would stifle innovation that typically occurs with bilateral markets that would be fostered under Option 4.

For all of the above reasons, STEC respectfully requests that the Commission require the "1 load shed event in 10 years" be used for determining the reserve margin and that ERCOT working with the stakeholders develop an implementation plan for Option 4.

² Brattle Report at 5

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Jo Campbell", is written over a horizontal line.

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