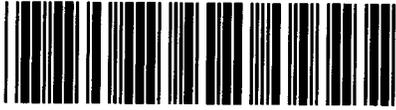




Control Number: 40000



Item Number: 327

Addendum StartPage: 0

RECEIVED  
2012 OCT 23 AM 11:42  
PUBLIC UTILITY COMMISSION  
FILING CLERK

**PUC PROJECT NO. 40000**

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

**LOWER COLORADO RIVER AUTHORITY’S COMMENTS ON COMPOSITE  
POLICY OPTIONS AS PRESENTED BY THE BRATTLE GROUP, OCTOBER 19, 2012**

The Lower Colorado River Authority (LCRA) offers the following comments in Project No. 40000 – *Commission Proceeding to Ensure Resource Adequacy in Texas*, relating to the *Composite Policy Options* developed by the Brattle Group on October 19, 2012 for the October 25, 2012 Workshop.

LCRA shares the concerns about generation resource adequacy expressed by the Public Utility Commission of Texas (PUC), Electric Reliability Council of Texas (ERCOT) and other market participants in the ERCOT region. Projected load in the ERCOT region is growing at a faster pace than existing and planned generation resources. ERCOT projects that the reserve margin will fall below its target of 13.75% by 2014, as described in ERCOT’s May 2012 “Report on Capacity, Demand and Reserves in the ERCOT Region.” ERCOT has since revised its estimates to incorporate recently announced new generation additions into the supply side and a more pessimistic economic forecast into the demand side of its projections. These adjustments improve the picture somewhat, but future reserve margins still fall below the target in 2014 and each year thereafter. In addition, the Brattle Group report on “ERCOT Investment Incentives and Resource Adequacy,” dated June 1, 2012 (Brattle Report on Investment Incentives) highlights the challenges to new generation resource development in the current market.

LCRA continues to monitor the filings in this Project No. 40000 and after review of the Brattle Group’s suggestions in the *Composite Policy Options* report, LCRA offers the following comments. Based on the two options presented in the report, LCRA finds that some of the

327

Brattle Group's justifications for a capacity market, with both generation and demand response (DR) components, address the concerns that LCRA has communicated in earlier filed comments.

***Reliability is the Paramount Concern***

The reliability of the grid is a pressing public policy concern, receiving appropriately high priority consideration and action from the PUC. Thin reserve margins can compromise ERCOT's ability to reliably deliver electric power. LCRA believes that electric consumers and the overall state economy benefit from a reliable and stable generation supply. To that end, LCRA believes that the electric market should be designed to meet reserve margins and the overarching objective to reliably deliver electric power.

***Market Volatility is a Concern***

LCRA previously provided comments in Project No. 40268 expressing concern over increasing the system-wide offer cap and its potential for increasing volatility in market prices. LCRA believes that the ERCOT market should not continue to rely on high prices during infrequent scarcity situations to attract generation. Further, a higher system-wide offer cap increases risk exposure and can lead to increases in market participants' collateral posted to ERCOT and the costs of obtaining credit in order to continue participating in the market. The capacity market appears to address LCRA's concerns regarding market volatility.

***Current Energy-Only Market Is Not Incentivizing Generation***

The Brattle Group's assessment is that "the current energy-only market design will not attract enough investment to meet the current 'target' reserve margin and reliability objectives," and "reserve margins would fall to unprecedented low levels" under a pure energy-only market. LCRA believes these statements are compelling.

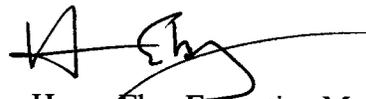
LCRA also agrees with the Brattle Group's findings that DR should be a component of the market, but not the only option. DR would be an important feature of either of the composite policy options. However, LCRA agrees with the Brattle Group's statement in its October 19, 2012 filing, that DR has value in meeting reserve margins, but not the same value as traditional generation.

LCRA finds that the Brattle Group has thoroughly vetted available policy options and ERCOT-specific considerations and developed a recommendation for a capacity market that would:

- Increase reserve margins and reliability,
- Price capacity appropriately through a competitive bid-based auction mechanism,
- Create forward price signals to impact new generation investment decisions,
- Allow new and existing generators, along with DR resources, to compete effectively to provide needed capacity, and
- Reduce price volatility and customer costs in extreme weather years.

LCRA appreciates the opportunity to comment on the Brattle Group's *Composite Policy Options* and looks forward to participating in the workshop. LCRA supports the PUC's actions to address resource adequacy issues and will continue to work with the PUC, ERCOT and market participants to find appropriate approaches to encourage investment in new generation in ERCOT.

Respectfully submitted,



Henry Eby, Executive Manager,  
Environmental and Regulatory Affairs  
Lower Colorado River Authority  
P.O. Box 220  
Austin, Texas 78767-0220  
(512) 473-3255  
[henry.eby@lcra.org](mailto:henry.eby@lcra.org)