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

COMMENTS OF GDF SUEZ ENERGY NORTH AMERICA, INC.

GDF SUEZ Energy North America, Inc., ("GDF SUEZ") submits this response to the Public Utility Commission's ("PUC" or "Commission") request for comments the Brattle Composite Report filed with the PUCT on October 19, 2012 in Project No. 40000. Pursuant to the Notice of Workshop, these comments reference Project No. 40268.

I. OVERVIEW

GDF SUEZ continues to believe that the energy only market design with modifications to a few protocols will provide a superior level of reliability and efficiency that a centralized capacity market. While the most recent report from The Brattle Group, "Resource Adequacy in ERCOT: 'Composite' Policy Options" continues to stimulate useful debate, GDF SUEZ feels that this most recent assessment failed to accurately gauge the relative strengths and weaknesses of the two options that were presented. Contrary to the assessment of the Brattle study, GDF SUEZ feels that an energy only option ("Energy Only w/ DR and Expanded Operating Reserves") with the integration of expanded operating reserves, compared to a centralized capacity market, provides immediate high reliability. GDF SUEZ agrees with Brattle that the Energy Only w/ DR and Expanded Operated Reserve option is superior to a centralized capacity market in terms of economic efficiency and cost and superior in terms of implementation complexity.

Scant attention was given in the Brattle report to several important elements of the Energy Only w/ DR and Expanded Operating Reserves. Among the critical elements not fully assessed are how to attract demand response in real time and how an operating reserve demand curve could be designed based on the value of lost load. GDF SUEZ believes that the Brattle analysis does not represent a balanced assessment of the two options presented.

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II. Discussion

A. GDF SUEZ supports Composite Option 1: Energy-Only with Support for Demand Response and Expanded Operating Reserves ("Energy Only w/ DR Support and Expanded Operating Reserves").

GDF SUEZ believes that an energy only market with the appropriate amount of demand response that would be required to provide market equilibrium at a selected reserve target will provide grid reliability and be the most efficient market design for ERCOT. Understanding that current and near term demand response ("DR") growth will not be sufficient to meet the reserve target Composite Option 1 utilizes increased Operation Reserves in conjunction with demand response to meet the necessary reliability target.

1. Reliability

GDF SUEZ feels the Brattle report mischaracterizes the reliability of Option 1. GDF SUEZ believes that expanded operating reserves provide superior real-time reliability (there are more operating reserves in real time available for ERCOT to dispatch in the event of reliability events) and, with a properly designed operating reserve demand curve, will send the price signals needed to attract the investment to meet whatever reliability target may be determined. GDF SUEZ has full confidence in the market that proper price signals will attract new investment needed to meet reliability targets. GDF SUEZ disagrees with the Brattle report that it is simply not difficult to calculate the amount of operating reserve needed to achieve a reliability target. Brattle stated that with a $9000/MWh system-wide offer cap ("SWOC"), reserve margins would be 10%, therefore 4% of the installed capacity would be roughly 3,300MW to reach the reliability target. This is a simplifying assumption, but a valid one.

2. Economic Efficiency and Costs

GDF SUEZ agrees with Brattle that the Energy Only w/ DR and Operating Reserves portion is simple, inexpensive to design and implement, and can be implemented relatively quickly and easily. It will send price signals to attract investment as soon as implemented while increasing real-time reliability, not only in the summer peak season, but in the shoulder months as well. It avoids any period of regulatory uncertainty during any extensive market restructuring and because operating reserves are an existing mechanism with existing protocols and systems in place, implementation will be simple.

3. Regulatory Stability and Investor Risk

Brattle states that Option 1 lends itself to greater regulatory risk in the future. Operating reserves are administrative in nature and currently exist in the ERCOT market. These reserves provide a cushion against unexpected events and ensure real-time reliability. GDF SUEZ is simply suggesting to increase that amount to enhance real-time reliability for consumers while sending proper price signals to the market which attracts additional generation over time. GDF SUEZ has confidence that the PUCT, ERCOT and stakeholders and industry experts will help determine the proper amount of the reserves.

It's important to note that all competitive electricity markets have some form of "administrative mechanism" to ensure they work properly. For example, in ERCOT, all price CAPS , the Power Balance Penalty Curve and floor levels for NSRS are considered administrative mechanisms. Increasing operating reserves serves to protect the system will stimulate the formation of scarcity pricing and signals more quickly. GDF SUEZ does not agree that it lends itself to future administrative intervention any more than the mechanisms that currently exist or that may come under scrutiny in a capacity market.

4. Implementation Complexity

GDF SUEZ agrees with the Brattle assessment that the implementation for Energy Only with DR support and expanded operating reserves is superior with respect to implementation complexity. In fact, GDF SUEZ feels that Brattle has not articulated the full extent of this advantage. Because operating reserves are an existing mechanism with existing protocols and systems in place, implementation will be simple. Since there is little change required of the existing structure, the cost for ERCOT to implement should be very small. The operating reserves expansion portion is simple, inexpensive, and it can be implemented relatively quickly and easily. It will send price signals to attract investment as soon as implemented while increasing real-time reliability. It avoids any period of "signal uncertainty" during any extensive market restructuring.

Further, this option utilizes operating reserves which are known to the ERCOT stakeholders. Therefore, market participants can easily use the same methods of hedging that are currently in place today to cover their requirements.

5. No Procurement of Backstop Generation

GDF SUEZ emphatically agrees with Brattle that there should be no procurement of backstop generation for the reasons that are stated in their report.

B. GDF SUEZ has concerns with Texas Capacity Market Option.

The Brattle Group suggests that a centralized capacity market could be designed and implemented by "Early 2015^{+}." The "2015^{+}" suggests that early 2015 may be optimistic. GDF SUEZ agrees. By their very nature, centralized capacity markets are complex and will take a significant amount of time to get the design and rules right. In reality, the other wholesale markets in the US that use centralized capacity markets, in one form or another, are still in the process of getting their centralized capacity markets right. In most instances, these other capacity markets are on their second or third iteration of "getting it right"—usually through litigation with the FERC and state regulators. It is GDF SUEZ's opinion that in ERCOT we simply don't have the luxury of 4 years or more to address this problem.

1. Transition Period Challenges (Timing and Sticker Shock)

Brattle suggests phasing in payments to existing resources due to the "Timing" and "Sticker Shock" challenges found in Option 2. Brattle states "*This is discriminatory and could discourage economic capital expenditures to maintain existing resources, but would ease the transition substantially.*" Not only would this approach threaten reliability—and reliability is the very purpose of this proceeding—it would also devalue the assets of those generation owners who have already invested in ERCOT while rewarding new investment. While Brattle suggests that it is critical for the PUCT to commit to "*never discriminate again,*" this administrative discrimination would only heighten regulatory uncertainty in the market and erode market faith in the regulatory process in Texas. This is a non-starter in any transition plan.

2. Understatement of Concerns over Market Power Issues

Brattle states that suppliers in the new Texas Capacity market will be disciplined by competition with unlimited entry on a 3-year forward basis. GDF SUEZ believes that the issue of market power needs to be fully vetted among stakeholders and at the Commission because 56the market concentration in ERCOT by major suppliers could be a concern. It is also unclear in the Brattle proposal how NOIEs will be treated in the Option 2 proposal and, if included in the capacity market, how mitigation of any market power would be treated. These are issues that deserve undivided attention prior to any policy decision to ensure it does not take Texas several design iterations to get it right.

3. Unclear how appropriate scarcity prices will be developed in Capacity Market Proposal

The proposal calls for a low energy price cap [$1,000] which suggests that most margins for generators will be derived from the capacity payment – not the energy payment. Competition in the energy market is necessary to ensure that the most efficient plants are dispatched. Reducing that competition by shifting the primary source of generator revenues to a capacity payment will likewise reduce the efficiency of the market. As can be seen in other ISOs with capacity markets, there has been a focus on improving the real-time and scarcity pricing mechanism. A full functioning energy market with appropriate scarcity signals is necessary to ensure real-time reliability is achieved and must be the foundation on which a capacity market is based.

Demand response and increased operating reserves should play an important role in any capacity market design. They are needed to send accurate signals to identify both the location and type of technology required in an efficient market.

4. Insufficient forward visibility in the Capacity Market

The experience in other centralized forward capacity markets suggest that the 3-year contract period for forward price visibility is not optimal to attract long-term capital investments in power generation. Other operating capacity markets are currently evaluating extension of the existing 3-year contract period to 5 or more years.

GDF SUEZ views the 3-year contract period as providing insufficient visibility in any capacity market design. GDF SUEZ suggests that if the PUCT chooses the capacity market option, it take this lesson learned and increase the forward contract period to greater than 3 years.

III. Conclusion

The Commission faces a critical decision on the path of the ERCOT electricity market. Affordable, reliable electricity coupled with regulatory certainty is of great importance to consumers and businesses in Texas. The Commission needs to look squarely at the fundamental problem: that today's forward prices and the history of market intervention do not indicate investors will earn a competitive return on their invested capital. Increased forward prices (and its connection to resource adequacy) and regulatory certainty should be the focus of this Commission proceeding. Both are solvable problems in the context of an energy only market.

Consequently, it seems prudent that before the Commission abandons a decade of investment and experience in its energy only market, it should free that market to work. Price controls that hinder efficient pricing can be altered, and mechanisms that facilitate the formation of efficient pricing can be implemented.

The new capacity that has entered the market in 2012 as a result of early energy market reforms suggests that further reforms may meet the resource adequacy needs of ERCOT. At a minimum, those reforms—higher offer caps, expanded operating reserve and demand response programs, an increased peaker net margin—and continued progress on other ongoing market design components provide time to judge whether more fundamental changes are needed, and should be a permanent part of any future market design.

In summary, GDF SUEZ reiterates its support for the Option 1 Composite. But GDF SUEZ also understands that the demand response portion of the proposal will take time to develop.

GDF SUEZ agrees with ERCOT that the six-month schedule offered by Brattle for implementation of either policy **composite** is likely unreasonable. This further highlights that the Commission should consider utilizing the increased operating reserves portion of the energy-only composite, which is quick and easy to implement, as a transition mechanism or "bridge" to full implementation of either composite option. This would insure that appropriate scarcity and forward pricing signals are being established during the transition to full implementation of either composite option.

GDF SUEZ appreciates the opportunity to offer these comments and looks forward to working further with the Commissioners and stakeholders.

Respectfully Submitted,

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