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TEXAS ENERGY ASSOCIATION FOR MARKETERS' COMMENTS ON BRATTLE GROUP 'COMPOSITE' POLICY OPTIONS

The Texas Energy Association for Marketers (TEAM)[1] files its Comments on the Brattle Group's 'Composite' Policy Options filed on October 19, 2012. TEAM has participated in all of the recent resource adequacy projects at the Public Utility Commission of Texas (Commission) and appreciates the opportunity to continue offering input to the work that the Commission, ERCOT, the Brattle Group, and market stakeholders have done to find solutions to the resource adequacy challenges of the market's near future. As stated in its comments in this Project and in Project Nos. 37807 and 40268, TEAM consistently supports competitive market-based solutions to resource adequacy issues and advocates that any significant changes to the Texas electric market retain the fundamental structures that have made it the most successful competitive electricity market in the country.

I. Demand Response Should be Provided Through the Competitive Market

Consistent with its prior comments in this project, TEAM supports the continued development of demand response (DR) resources as one aspect of any policy solution to resource adequacy challenges. The transmission-distribution utilities (TDUs) are of course vital to the deployment of the advanced meter systems (AMS) that will be needed to implement residential and small commercial DR on a meaningful scale, but the development of programs and retail products that make use of the capabilities of AMS to provide DR should be accomplished through the competitive market.

[1] The members of TEAM participating in this proceeding are: Accent Energy; Amigo Energy; Cirro Energy; DPI Energy (d/b/a Truesmart); Hudson Energy Services; Just Energy; Stream Energy; Tara Energy Inc.; and TriEagle Energy.

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II. Market Design Modifications Should Protect Existing Contracts and Minimize Volatility

Any market design modifications must account for the retail supply contracts of LSEs that will be in effect at the time the modifications are implemented. Unless market design modifications are implemented on a schedule protracted years into the future, which is unlikely given the need for resource adequacy solutions in the near term, the modifications will almost certainly occur during the pendency of existing contracts. Although REPs and other LSEs employ a variety of hedging products and purchasing strategies to avoid exposure to high prices in the day-ahead and balancing energy markets, fundamental changes to the market could make these strategies ineffective. If market design modifications will change the position of market participants with regards to existing retail supply contracts, the modifications should be made with the specific directive that they constitute changes in law beyond the control of the contracting parties and thus trigger contractual provisions to that effect accordingly.

Market volatility occurs when prices are difficult to predict and can swing dramatically higher in response to market demand caused by weather events or other conditions. Market volatility increases the costs of risk avoidance strategies, raises bilateral wholesale prices over time which in turn raises consumer prices and requires greater amounts of credit and other resource commitments from LSEs. The Brattle Group Composite Policy Options recognize this risk for the energy-only market with support for demand response (DR), but do not comprehensively consider the implications of increased volatility. While REPs can hedge their risks of market exposure financially, they cannot directly do so physically as stated in the Composite Policy Options[2] because PURA does not allow REPs to own generation.[3] Further, the ability to hedge financially for market volatility caused by weather conditions is dependent on the accuracy of forecasting such conditions, which is far from certain. A REP fully hedged for a summer month based on 20-year average weather can still be exposed to the day-ahead or balancing energy markets if there is unexpected extreme weather, and a market with very high offer caps and administrative pricing mechanisms can make such exposure prohibitive.

[2] Brattle Group Composite Policy Options at 17.
[3] PURA § 31.002(17).

III. Conclusion

The Brattle Group Composite Policy Options provide a useful roadmap for the policy decisions and implementation issues that will affect the market if the significant design modifications needed to either continue with an energy-only market or move toward a Texas capacity market are directed by the Commission. What the Composite Policy Options do not provide, however, is an economic analysis of what effect either option will have on energy prices, credit requirements, and risk avoidance premiums that will be incurred on the participants in the market, including all consumer interests and load-serving entities (LSEs) as well as the generators whose revenues these policies are designed to benefit. Additional information is needed on the economic impacts of the Composite Policy Options described by the Brattle Group.

Specific market design modifications described by the Brattle Group should be analyzed in greater detail including analysis of the economic impacts that the modifications will have on retail customers. As stated in prior TEAM comments, a final decision on market design options should include measures to address transition issues for existing customer contracts and forward market volatility and cost changes that could affect future contracts during the term of those contracts. TEAM appreciates the opportunity to offer these comments and the comprehensive dedication to this issue demonstrated by the Commission, Commission Staff, and ERCOT market participants.

Respectfully submitted,

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