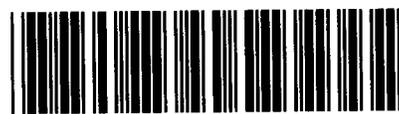




Control Number: 40000



Item Number: 411

Addendum StartPage: 0

PUC PROJECT NO. 40000

RECEIVED
2013 MAY 31 PM 1:26
PUBLIC UTILITY COMMISSION
ENERG

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

**TEXAS ENERGY ASSOCIATION FOR MARKETERS'
COMMENTS ON SOLUTION B+**

The Texas Energy Association for Marketers (TEAM)¹ files its Comments on Solution B+ as described in the ERCOT whitepaper filed on March 21, 2013 and subsequently updated. 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, and market stakeholders have done to address potential challenges in the market's near future.

I. Introduction

TEAM consistently supports competitive market-based solutions to market design 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. These comments address potential impacts of Solution B+ to Retail Electric Providers (REPs) and their customers, particularly as they relate to the market impacts and the ancillary services settlement process at ERCOT. It is from this perspective that the issues identified by Commission Staff in its Request for Comments filed on April 3, 2013 are addressed.

Solution B+ appears designed to address scarcity price signals by employing price adders in the real-time market to those signals that have previously been suppressed by certain administrative mechanisms. Importantly, however, Solution B+ has not been analyzed as a resource adequacy solution and its impact on forward price curves, as well as the predictability

¹ The members of TEAM participating in this proceeding are: Accent Energy d/b/a IGS Energy; Cirro Energy; DPI Energy (d/b/a Trusmart); Entrust Energy; Just Energy; Spark Energy; StarTex Power; Stream Energy; and TriEagle Energy.

of that impact, has not been analyzed. Similarly, ERCOT's Backcast whitepaper estimates impacts to the peaker net margin (PNM) that could be anticipated by the implementation of Solution B+ but does not estimate the possible impact on ERCOT's reserve margin or direct incentive for the construction of additional generation resources. Given these limitations, Solution B+ should be considered on its merits, but not conflated with a resource adequacy solution, at least until sufficient study is given to its impacts in that regard.

II. Market Impacts of Solution B+

Solution B+ applies administratively determined price adders to the cost of energy to increase the revenue received by generators. These comments do not advocate a position on the advisability of this policy, rather they describe the impacts that the policy will have on REPs and other load serving entities (LSEs) that participate in the retail and wholesale competitive markets in ERCOT. The effect of Solution B+ on market prices varies widely depending on the minimum contingency level that is established as well as on the amount of scarcity pricing that occurs in a given year. ERCOT has identified these varying costs in its Backcast Analysis of Solution B+ and TEAM has no basis to question that cost analysis.² Because P.U.C. SUBST. R. 25.505(g)(6)(B) incrementally increases the system-wide offer cap (SWOC) to \$9,000 on June 1, 2015, the projections by ERCOT for the market impacts at each SWOC (also equated to the Value of Lost Load (VOLL)) are reflective of what we could expect in the market. If a minimum contingency level of 1750 MW is established, assuming that weather-influenced demand is similar over the next three years to the average of 2011/2012, average energy prices will increase by \$7.28/MWh in 2013, \$11.35/MWh in 2014, and \$15.42/MWh in 2015.³ On a per kWh basis this represents a minimum expected increase of more than 10% of the total average prices of residential electricity plans currently prevalent in the competitive market. The percentage increase to the *energy* cost of those plans is significantly greater. If weather patterns in future years are more severe, as in 2011, the price impact of Solution B+ will be many times greater. In 2015, for example, the increase to energy costs would be over \$.07/kWh, nearly doubling the overall cost of many residential electricity plans. This would increase energy costs

² *Back Cast of Interim Solution B+ to Improve Real-Time Scarcity Pricing Whitepaper* (ERCOT Whitepaper) (March 21, 2013); *ERCOT's Supplemental Analysis of Issues in ORDC B+ White Paper* (May 3, 2013).

³ *Id.* at Attachment A, slide 2.

in ERCOT by \$8.4 billion according to ERCOT's estimates.⁴ With 2012 weather the impact would be a still significant \$1.5 billion. It is also important to note that these projected increases do not reflect the additional costs to the market that would result from this volatility in the form of increased capital cost requirements before ERCOT. In addition, customers will be exposed to costs from increased risk premiums that would be reflected in forward curve prices as a result of the "adders" in Solution B+.

An increase of energy costs on this scale cannot be absorbed by LSEs and will be borne by consumers. It is critical that this significant market design modification be implemented with sufficient advance notice so that it does not interfere with existing fixed price contracts and that the process for assigning the increased costs be sufficiently predictable so that risk management strategies can be employed to preserve the continued viability of market participants.⁵

III. Ancillary Services Settlement Process

ERCOT has identified the modification of ancillary services settlements as an integral aspect of the implementation of Solution B+.⁶ ERCOT proposes to settle ancillary services based on real-time availability, with market participants that are short on their obligations to be charged the real-time market price with the price adder for the interval.⁷ Although the ERCOT Backcast concludes that the net effect of the ancillary services imbalance settlement results in a refund to loads in most cases, the application of this system needs further clarification as the potential for increased ancillary services costs is distinct from the adder calculation for energy prices. Although ancillary services represent a relatively small portion of the overall settlement responsibility of market participants, their settlement on a real-time basis makes hedging for their increase very difficult, even for a market participant that is positioned to be fully hedged. Further, in the current market design, ancillary services charges are primarily determined in the day-ahead market rather than in real-time. This may result in increased credit exposure at

⁴ *Id.* at Attachment A, slide 6.

⁵ In the alternate, the market design modification could specify that these additional costs will be considered changes in law/regulation that can be passed through to customers on fixed-price contracts. This would not be the preferable means of dealing with these costs but if significant advance notice is not provided for the market design change it will be necessary to avoid severe adverse consequences to the market.

⁶ *Back Cast of Interim Solution B+ to Improve Real-Time Scarcity Pricing Whitepaper* (ERCOT Whitepaper) at 7 (March 21, 2013).

⁷ *Id.*

ERCOT, particularly if the result of the settlement is not a net refund to loads, but an additional payment obligation as shown in the ERCOT Backcast for 2012 at a \$5,000/MWh SWOC.⁸

IV. Issues Identified in Request for Comments

1. How long will it take and what is the cost to implement Solution B+?

ERCOT answered this question in its filing on May 17, 2013, stating that the cost of implementation will be between \$100,000 and \$200,000 with an implementation time of 6 to 8 months.⁹ While this administrative cost is modest, the cost implications to the market are exponentially greater - as high as tens of billions of dollars in years with weather comparable to 2011 if a minimum contingency level of 2300 MW is implemented.¹⁰ Even in years with more normalized weather such as 2012 the cost to the market will range from hundreds of millions to several billion depending on the minimum contingency level and system-wide offer cap (SWOC).¹¹

These significant market costs will be paid by electricity consumers and LSEs must have the opportunity to factor them into pricing and risk management strategies. Implementation of a new market design without sufficient time to incorporate the costs of the design into existing contracts could be potentially ruinous on load serving entities. Significantly more lead time than 6-8 months will be needed to implement a market structure change of this scale so that market participants are not burdened with costs that are not incorporated in existing contracts without a mechanism to quantify and recover those costs from customers.

4. With regard to minimum bids for ancillary services, should different ancillary services (such as on-line non-spin and off-line non-spin) be treated differently?

Allowing the substitution of other ancillary services for non-spin is a market based solution that addresses price reversal. Ancillary services should be allowed to be substituted

⁸ ERCOT's *Supplemental Analysis of Issues in ORDC B+ White Paper*, Attachment A, slide 5 (May 3, 2013).

⁹ *Impact Analysis Estimating Cost and Timeline for Implementation of ORDC B+ Proposal* (May 17, 2013).

¹⁰ ERCOT's *Supplemental Analysis of Issues in ORDC B+ White Paper*, Attachment A, slide 6 (May 3, 2013).

¹¹ *Id.*

between to ensure the least expensive mix. Currently, that substitution ability is not allowed by rule and, as a consequence, this can cause prices to spike during non-scarcity intervals if a certain type of ancillary service suddenly becomes unavailable. A price spike of this type occurred in February.

V. Conclusion

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,



Catherine J. Webking
State Bar No. 21050055
(512) 542-7036
(512) 542-7236 (Fax)
cwebking@gardere.com

Andres Medrano
State Bar No. 24005451
(512) 542-7013
(512) 542-7223 (Fax)
amedrano@gardere.com

GARDERE WYNNE SEWELL LLP
600 Congress Avenue
Suite 3000
Austin, Texas 78701-2978

**ATTORNEYS FOR TEXAS ENERGY
ASSOCIATION FOR MARKETERS**