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PUBLIC UTILITY COMMISSION
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PROCEEDING RELATING TO § PUBLIC UTILITY COMMISSION
RESOURCE ADEQUACY IN THE §
ERCOT POWER REGION § OF TEXAS

COMMENTS OF NEXTERA ENERGY RESOURCES, LLC

NextEra Energy Resources, LLC (NextEra) submits the following comments and answers to questions that the Commission posed to market participants for consideration at the Commission’s October 8th workshop on resource adequacy.

COMMENTS

Recently, the Commission made a number of key decisions on the Operating Reserve Demand Curve (ORDC). NextEra supports the Commission’s efforts to improve the real-time energy market – such reforms are absolutely essential in ensuring the efficacy and functionality of the marketplace. The ORDC will not, however, address the lingering long-term resource adequacy challenge. For this, the Commission should adopt a mandatory reserve margin and a complementary centralized reliability market.

The numerous market modifications – the ORDC and the System Wide Offer Cap (SWOC), in particular – have pushed real-time and forward electricity prices up slightly, which in turn has modestly increased spark spreads. Unfortunately, the spark spreads remain significantly below the level necessary to drive new generation investment in Texas. In other words, while the changes have had an impact on prices, the impact has been trivial and does not provide any pricing transparency or certainty into the future – the key element in encouraging new investment. So, despite the efforts, planning reserves remain forecasted below prudence in the near-term and future reliability remains in doubt.

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Even with a new efficiency-driven paradigm where electrical growth slightly lags Texas's booming economic growth, electricity usage is growing and the state will reach shortage levels within a year or two. As Brattle and others have concluded, resource adequacy can only be assured by providing a knowable, forward-looking capacity or reliability market or product – a mechanism to discover and compensate for the missing money. To this end, NextEra urges the Commission to take steps to approve a mandatory reserve margin and a complementary Texas-specific, forward-looking, centralized capacity or reliability market.

In response to the specific questions posed by Commission, NextEra submits the following:

1. **Should the reserve margin be a “target” or “requirement”?**

NextEra believes that a reliable power system is essential to the continued economic growth and quality of life in Texas. Long-term, reliability is simply not viable absent a required reserve margin. Importantly, electricity is not a commodity. Rather, it is an essential part of life – Texans expect and deserve electric service 100% of the time. Absent a requirement, the reserve margin is at the whim of the market, hoping supply matches demand. In this, the market will be reactive, not pro-active. Hoping for shortages is not a sound energy policy.

2. **What should the standard be for developing the reserve margin “target” or “requirement”?**

The current Loss of Load Expectation (LOLE) of 1 event in 10 years has been the ERCOT standard since ERCOT's inception. This standard has produced the level of reliability expected by Texans. That said, NextEra supports the Commission's request for analysis by Brattle on the economically

optimal reserve margin. The Commission should wait until Brattle's analysis is complete and then should make a thorough evaluation and adopt the appropriate reserve margin standard.

3. **What is the best way to achieve the reserve margin?**

NextEra continues to believe that the most efficacious means of achieving a required reserve margin is a Texas-specific, forward-looking, centralized capacity or reliability market construct. While some of the details of the construct are debatable, it is imperative that the market or product be forward-looking to provide the required price signal to resources and developers. It should also be resource indifferent and should be available to demand response, energy efficiency and new and existing generation – electrons are all equal and all essential in ensuring reliability. Importantly, indifference also provides the necessary competitive market signals for new resources, upgrades to existing resources and for retirements – it will result in the most efficient resource mix. Lastly, the construct should be Texas-specific and should take into account the uniqueness of ERCOT, including the significant amount of renewable resources, high seasonal demand variations, expected increases in load resources and an aging solid fuel fleet.

SUMMARY

The Commission has spent years thoroughly and thoughtfully investigating ERCOT's resource adequacy issues. As a part of this effort, much-needed improvements have been made to the real-time energy market. Despite these efforts, however, the requisite money to ensure long-term adequacy remains missing from the market. The Commission needs to address this shortcoming – not through more real-time market adjustments, but through the implementation of a reserve margin requirement and the creation of a forward-looking, centralized capacity or reliability construct.

Respectfully submitted,

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