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**PROJECT NO. 40000**

**COMMISSION PROCEEDING §  
TO ENSURE RESOURCE ADEQUACY §  
IN TEXAS §**

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**COMMENTS OF CPS ENERGY ON ORDC VARIABLES AND A PATH FORWARD**  
**ON RESOURCE ADEQUACY**

CPS Energy<sup>1</sup> offers comments in the above styled project in preparation for the workshop scheduled for October 8, 2013.

**I. INTRODUCTION**

Recently the Commission decided to go forward with an Operating Reserve Demand Curve (ORDC) and further decided the key inputs of such an ORDC. On balance, CPS Energy supports the Commission's decision. While the contingency reserve is greater than that advocated by CPS Energy, the overall combination of variables chosen is reasonable. Nevertheless, as the Brattle analysis filed in this docket concludes the ORDC with the Commission stipulated variables will not preserve the current reliability standard of a one outage in ten years.<sup>2</sup>

Understanding that an efficient ORDC may not provide the planning reserves desired for ideal reliability, CPS Energy offers a path forward with a goal meeting an ideal level of reliability in ERCOT with the greatest efficiency.

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<sup>1</sup> CPS Energy™ is the registered trademark of the City Public Service of San Antonio, acting by and through the City Public Service Board.

<sup>2</sup> CPS Energy bases this assertion on the Brattle Group analysis filed by ERCOT titled: "Report on ORDC B+ Economic Equilibrium Planning Reserve Margin Estimates Prepared by The Brattle Group." In that analysis on slide 4 (or page 5 of the filing) a SWOC of \$9,000 and Contingency Reserves of 2300 were modled. The estimated average economic equilibrium reserve margin was 10.2% with significant market participant behavior changes and 13.9% with no behavior changes. Given that the Commission, on September 12, 2013, voted for a contingency reserve of 2,000, CPS Energy estimates that the average reserve margin will not exceed 10.2% as we expect significant behavioral changes.

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## **II. A PATH FORWARD**

The proposal is simple and feeds on efforts already taken by the Commission. First, the Commission should determine that the reserve margin should be a requirement. However, the level of the requirement should not be set until the completion of the study requested from ERCOT on the economically optimal reserve margin. This study should drive the Commission's decision on the level of the reserve margin requirement. CPS Energy suspects that the "one event in ten year" standard may not be the ideal reserve margin. It is important to get the required level right, first, because the requirement will drive the next steps. Getting very close to the requirement with the existing market design may only require small changes, while a large gap might require significant changes. All options outlined by The Brattle Group should be available for consideration.<sup>3</sup>

Second, upon setting the "required" reserve margin the Commission should pick the market design that will sustain the requirement. Equally important in the choice is economic efficiency. CPS Energy favors mechanisms that do not disrupt or undermine the dispatch of the ERCOT system through Security Constrained Economic Dispatch (SCED). Further, specific resources should not be targeted or preferred. In other words, carve-outs or resource specific allocations should be avoided and barriers to entry removed. The idea is to value every resource according to its abilities and not to impose an administrative preference on the market.

CPS Energy sees Demand Response (DR) as a key part to any solution to this problem. Driving this view is the nature of the resource adequacy challenge. DR

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<sup>3</sup> The Brattle Group, "ERCOT Investment Incentives and Resource Adequacy," June 1, 2012, p. 4-5.

features two key elements that are of particular benefit from a resource adequacy view point, peak shaving and voluntary curtailment. Load durations curves indicate that the planning reserve margin is only needed for a few, select hours and both peak-shaving and load curtailment (indicating a willingness to curtail at specific times or prices) are effective solutions to meet resource adequacy needs. While reserves are always needed, peak shaving helps the problem by reducing load in those maximum use hours. Electricity markets have traditionally lacked the ability to reflect the response to high prices of load willing to self-curtail. DR programs that allow load to curtail at given price points not only make the ERCOT market work more efficiently, they also offer tangible capacity for the purposes of resource adequacy.

It is worth emphasizing that CPS Energy is not advocating for a DR specific program here. Instead, these comments recognize the fact that the best, most efficient solution to the resource adequacy challenge will include vibrant DR participation. Therefore, any solution must include equal access, free of barriers to effective and verifiable Demand Response.

### **III. Real-Time Co-optimization**

Real-Time co-optimization is an enhancement to the real-time market that allows a more efficient dispatch of energy and reserves; CPS Energy supports its implementation. The issue has come up in the context of resource adequacy, but it only has resource adequacy implications in as much as it allows an ORDC to operate more efficiently. The true value of co-optimizing real-time energy and ancillary services is its ability to dispatch the best resources in a manner where they are indifferent to an ancillary service award or an energy award. Therefore, a

decision on resource adequacy should not be delayed on implementing real-time co-optimization.

Nevertheless, the implementation of real-time co-optimization should be a market improvement that interests the Commission and ERCOT should aspire to its implementation. However, the prioritization of this feature need not be at the height of other resource adequacy mechanisms.

#### **IV. Conclusion**

CPS Energy challenged itself to lay out a straightforward logical approach to solving the resource adequacy question that incorporates efforts already directed by the Commission in its September 12, 2013 open meeting. We support the advancement of an ORDC with the variables recommended. Following the ORDC decision with a study to determine the best reserve margin goal provides the basis for a path forward. CPS Energy believes the optimal (economic) reserve margin analysis can guide the Commission in setting a reserve margin requirement and advocates for a "requirement" not a target. Finally, with a requirement in place, the Commission can pick the best market design for closing the gap (if any) between capacity provided by the current market and the Commission requirement.

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Respectfully submitted,

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