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

COMMENTS SUBMITTED BY RAY SCHWERTNER ON BEHALF OF VISION ENERGY CONSULTANTS IN
RESPONSE TO QUESTIONS PREPARED BY CHAIRMAN NELSON THAT WERE THE SUBJECT OF A
DISCUSSION AT THE OPEN MEETING OF OCTOBER 25, 2013.

Elements of a Reliability Market

1. What resources should be allowed to participate in the market?

Only new resources that have been selected through a PUCT bidding process would be available to provide reliability to the grid. Existing resources are not capable of providing more megawatts for reliability, and should not receive any compensation for this purpose. The reliability market should be run based on the amount of reserves established by ERCOT/PUCT, and any deficiencies would be procured through an auction process at the PUCT. Any credit worthy entity would be allowed to bid for the needed additional Megawatts. The lowest cost bids from the most qualified bidders would be selected by the PUCT. Those resources receive fixed payments similar to a rate of return based on their investment. All energy called on by ERCOT for reliability is paid at verifiable cost. For the few hours in the year that these units will be called upon, they will return any energy settled in the real time market back into a fund that is used to make the fixed payments on these units. This will not disrupt the Nodal Energy Only Market and these units will be there for reliability. ERCOT will control the dispatch of these units and will be limited to using them only after existing resources have been exhausted.

2. How far forward should the procurement occur? What are the trade-offs of difference forward procurement times?

The procurement should be equal to the last ERCOT base case load forecast. It seems that 7-10 years would work and allow the successful bidders to acquire the necessary capital to build these units. If the term is long enough for bidders to receive funding, there isn't a problem with different forward procurement time. Those events will occur when the load growth needs additional generation to meet the reserve requirements.

3. What qualification, performance requirements, and penalties should be in place for resources?

The PUCT should evaluate each of the bidders based on a consistent financial analysis. It is intended to select credit worthy proposers to ensure that the facilities are constructed and the proposer is capable of raising the necessary capital to construct and maintain the resources. In determining the highest rated credit worthy parties, the PUCT will reduce the cost of the program since these parties will have a lower cost of capital and a lower rate of return. Because of the minimal amount of use, these units are likely to

be smaller peaking units that require less maintenance. The performance requirements should be high and if the unit is not out on a scheduled maintenance, then the penalty for not being available should be the cost of any replacement energy procured by ERCOT for the unit that was not available.

4. Should there be locational reliability requirement in ERCOT? If so, what factors would dictate separate locational requirements.

The ERCOT system should be evaluated as to the locations that would best provide the reliability service. Those areas would become sites for the bidders to submit proposals. The factors that would determine these locations would have high load growth, available transmission capacity to interconnect the new resources, least amount of environmental and siting issues, adequate fuel supply near sites, and located in an acceptable air and water permitting area. The costs of these reliability units will be uplifted to all consumers in a similar process as ERCOT fees and transmission charges.

5. Should a transition mechanism be considered? If so, what issues would a transition mechanism be intended to address and how should it be structured?

The reliability market described in this document would not require a transition mechanism. The process of determining the amount of reserves, the locational preference of the resources, procurement through a bid process, and construction time would provide adequate time to consider and solve any transitional issues.

6. Should the Commission consider a Minimum Offer Price Rule (MOPR) or a statement of principles?

With the selection of the lowest cost providers who are willing to construct based on a rate of return methodology and a requirement that energy is settled to them at verifiable cost then there should be no need for a MOPR or statement of principles.

7. How would the reliability obligation be allocated to load serving entities?

The costs of this program would be uplifted to all consumers on a Kwh basis and billed to the retail customers similar to ERCOT fees and wires charges. Load serving entities would be required to bill and collect this additional fee.

8. If the market includes a centralized or residual auction, how should the auction be structured?

The proposed solution contained in these responses is a centralized auction and has been described above. To recap, ERCOT determines the amount of reserves needed and determine its most advantageous siting. Next, the PUCT holds a solicitation process, evaluates the proposals based on criteria that supports low costs, quick response and reliable resources, and those selected would receive a fixed payment for the capacity brought on line and a verifiable cost for any energy supplied. ERCOT would determine when these units are needed and put in service and ERCOT would only do that when all existing resources have been dispatched. ERCOT can't dispatch these units to disrupt the market or

affect prices. These are reliability units that are operated only during a grid emergency or conditions that warrant additional generation to protect the grid from failure.

9. If the market allows for self-provision, how should this be structured?

This reliability solution does not allow for self-provision.

10. Should a vertical or sloped demand curve be adopted?

Sloped demand curve would be better, although in this plan it should work with either.

11. What additional elements of a reliability market design should be considered?

Consideration should be given to this plan as described in these answers. There are several major reasons why this is the best for reliability. Number one, it is the cheapest way to get real assets built that protects the grid. It does not require ERCOT to build a capacity market and spend millions of dollars on new systems. It does not subject rate payers to pay millions of dollars in capacity payments with no guarantee that any new generation will be built to solve a growing load in this state. Because the deployment of these quick start peaking units are under the control of ERCOT, they will not impact the market prices. Because time is critical, these units can be installed in the shortest amount of time compared to other types of resources.