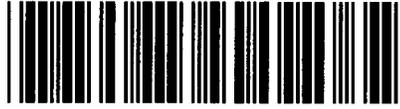




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PROJECT NO. ~~37897~~

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PROCEEDING RELATING TO §
RESOURCE ADEQUACY AND §
SHORTAGE PRICING §

REPLY COMMENTS OF CPS ENERGY

I. Introduction

CPS Energy¹ offers reply comments in the above-numbered and styled docket that are responses to the comments filed by parties on February 10, 2012. Many parties filed thoughtful comments on the issues in question, some of which CPS Energy supports and others it opposes.

CPS Energy supports increasing the System Wide Offer Cap (SWOC) and the Peaker Net Margin (PNM) trigger. It is also important to keep the Low System Offer Cap (LCAP). At this time, there is no reason to increase the Non-Spin Reserve Service (NSRS) floor above the levels recently approved by the ERCOT Board. On the issue of the Power Balance Penalty Curve, CPS Energy would support changes to the shape and high point of the curve to \$4,000. However, the starting price point of the curve should not be changed. Finally, CPS Energy opposes changes to SUBST. R. 25.504 of the Public Utility Commission (PUC or Commission) that would give greater exemptions from exercise of market power.

II. Replies to Filed Comments

On the Power Balance Penalty Curve (PBPC)

Resource adequacy price signals will be improved by having a PBPC that tops out at a higher price that also aligns with a higher SWOC. However, a starting point for the PBPC that is higher than the existing curve has serious problems. The lower regions of the PBPC serve the purpose of compensating for system ramp rate limitations and, therefore, prevent units from getting price signals that would force

¹ CPS Energy™ is the trade name of City Public Service of San Antonio, acting by and through the City Public Service Board.

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them to oscillate wildly between base points or even start up and then quickly shut down quick-start units. Thus starting the PBPC at \$500 as suggested by the Group of Competitive Texas Generators² and others is not a modification supported by CPS Energy. When and if the PBPC is employed for ramp rate limitations, this proposal will benefit baseline generation at the expense of units that are not at full output. Consequently, this proposed change is unlikely to help resource adequacy and only will serve to transfer wealth between types of units. The Commission should maintain a PBPC that maintains some capacity (MWs) at \$200.

On the System Wide Offer Cap and the Low system Offer Cap and the Peaker Net Margin

CPS Energy finds many of the arguments for eliminating the LCAP to be flawed or not to recognize features already in the rule. It may be useful to summarize the mechanics of the design found in P.U.C. SUBST. R. 25.505(g). First, the SWOC is in place until an annual tracking cycle identifies the PNM has been exceeded. Only at that point does the SWOC drop to the LCAP. Second, the period, under which the LCAP operates, extends only until December 31 of each year.³ January first of each year the SWOC returns and remains in place until the PNM is exceeded again. Therefore, the arguments made to entirely eliminate the LCAP are misguided. For example, the concerns expressed by Topaz would be better accommodated by modifying the PNM and LCAP but not eliminating it, as they suggest.⁴

CPS Energy would support raising the PNM the LCAP and SWOC. Many parties have suggested varying levels of increases here. BP recommends the Commission "Double Up on Scarcity Pricing" by proposing: \$6,000 for the SWOC, \$1,000 for the LCAP, and \$350,000 for PNM.⁵ The Competitive Generators recommend an LCAP that is 50% of the SWOC and a PNM that increases by 150%.⁶

² Project 37897, Group of Competitive Texas Generators' Comments at p. 5, February 10, 2012.

³ PUC SUBST. R. 25.505(g)(1),

⁴ Project 37897, Comments of Topaz Power Group, p. 5, February 10, 2012.

⁵ Project 37897, Comments of BP Energy Company at pp. 5-6, February 10, 2012.

⁶ Project 37897, Group of Competitive Texas Generators' Comments at pp.6-7, February 10, 2012.

CPS Energy has proposed an increase of the SWOC to \$4,000. This number is admittedly conservative but recognizes two operational realities that exist within the market. The first is credit. As the SWOC goes higher the credit requirements increase as well, forcing parties to post more collateral or operate more often in the volatile Real-Time (RT) market. The ERCOT Market can probably improve credit requirements but that will take time. Therefore, instead of a number in the higher range, an initial increase to \$4,000 may be a preferable first step. Second, risk and associated costs to generators increase as the SWOC increases. The cause of improving resource adequacy is not improved necessarily by creating more risk to generators. Much of this risk can be priced, but it will take time to quantify. For these reasons, CPS Energy prefers a smaller increase in the SWOC. However, CPS Energy is not opposed to ramping this number up over time, in a manner similar to that contemplated in P.U.C. SUBST. R. 25.505.

CPS Energy finds no basis for maintaining a ratio between the LCAP and SWOC, as has been put forward by the Competitive Generators.⁷ In fact, the rule specifically departed from maintaining a ratio. P.U.C. SUBST. R. 25.505 specifically increased the SWOC in steps and never increased the LCAP, thereby constantly changing the ratio, depending on the SWOC in place. In conclusion, this argument is extremely flawed. As stated previously, an increase in the LCAP is warranted, but there is no need to maintain a ratio.

On P.U.C. SUBST. R. 25.504 and 25.505.

CPS Energy supports opening a rulemaking docket to change P.U.C. SUBST. R. 25.505 but opposes changing P.U.C. SUBST. R. 25.504. There are fundamental flaws in the argument that letting entities exercise market power will improve market efficiency. The exercise of market power will actually distort prices that will lead to inefficiencies in the Texas electricity market and the overall Texas economy. Inefficient pricing resulting from the exercise of market power will not fix the resource adequacy

⁷ *Id.*

problem. The mechanism to improve resource adequacy is through proper scarcity pricing signals. The Commission has already put in many mechanisms to improve the market in this regard and the focus should remain on improvements to price signals and not to exemptions from the exercise of market power.

At present P.U.C. SUBST. R. 25.504 does not require strict marginal cost bidding the rule allows for a voluntary mitigation plan so there is no reason to open that section for further changes.

III. Conclusion

CPS Energy supports increasing the SWOC, the LCAP and the PNM but opposes exemptions from the exercise of market power which changing P.U.C. SUBST. Rule 25.504 would accomplish. CPS Energy respectfully requests that the Commission focus its attention to improvements in P.U.C. SUBST. Rule 25.505.

Respectfully submitted,

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