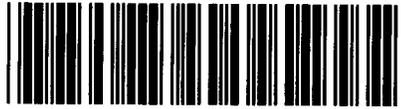




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PROJECT NO. 40480

PUBLIC UTILITY COMMISSION OF  
TEXAS PROCEEDING REGARDING  
POLICY OPTIONS ON RESOURCE  
ADEQUACY

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PUBLIC UTILITY COMMISSION  
OF TEXAS

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GOLDEN SPREAD'S COMMENTS  
REGARDING  
POLICY OPTIONS ON RESOURCE ADEQUACY

TO THE HONORABLE PUBLIC UTILITY COMMISSION:

Golden Spread Electric Cooperative, Inc. ("Golden Spread")<sup>1</sup> respectfully submits these comments in response to the Public Utility Commission's ("PUC" or "Commission") Notice of Workshop in Project No. 40268, *Commission Proceeding Regarding Policy Options on Resource Adequacy* (the "Policy Options Proceeding"). In preparation for the July 27, 2012, workshop, the Commission requested in its Notice of Workshop that interested parties submit comments on some of the recommendations in the Brattle Group, Inc.'s ("Brattle Group") report entitled "ERCOT Investment Incentives and Resource Adequacy" (the "Brattle Report") filed on June 1, 2012, by the Electric Reliability Council of Texas, Inc. ("ERCOT") in Project No. 40268, *PUC Rulemaking to Amend PUC SUBT. R. 25.505, Relating to Resource Adequacy in the Electric Reliability Council of Texas Power Region*.

COMMENTS

Golden Spread applauds the Commission's efforts to address generation resource adequacy in ERCOT. As the Brattle Report notes, "no major new generation projects are

<sup>1</sup> Golden Spread is a non-profit electric generation and transmission (G&T) cooperative headquartered in Amarillo, Texas. Golden Spread is committed to delivering cost effective, competitive and reliable power to provide a secure energy future for its sixteen member distribution rural electric cooperatives and their retail member-consumers, including in ERCOT. Seven of Golden Spread's sixteen member cooperatives serve retail customers in the ERCOT region. Golden Spread is also familiar with the capital requirements of new generation. In 2011 alone, Golden Spread finished construction and brought into commercial operation 246 MW of new generation that can provide capacity and energy, a 168 MW quick start gas-fired generating facility at Antelope Station and a 78 MW wind facility at Golden Spread Panhandle Wind Ranch. Golden Spread is constantly reviewing the potential for building capacity to serve in the ERCOT region. Golden Spread's Members serve over 213,000 retail consumers located in the Panhandle of Texas, South Plains and Edwards Plateau regions of Texas, an area covering twenty-four percent of the state, and in the Panhandle of Oklahoma, and in portions of Southwestern Kansas and Southeastern Colorado.

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starting construction” and “ERCOT projects that reserve margins will fall to 9.8% by 2014, substantially below its current reliability target of 13.75%.”<sup>2</sup>

The fundamental problem is that ERCOT’s energy-only market design does not sufficiently incent construction of new generating capacity. Wholesale market design should promote investment in generating capacity at the lowest reasonable cost. To accomplish this goal, “...lenders must be confident that the borrowing entity will have sufficiently stable net revenues to cover the total amount borrowed with ample margin for error.”<sup>3</sup> If lenders have confidence that there is a secure stream of revenues over the long term to support generation projects then this confidence should be reflected in lower borrowing costs and ultimately a lower price for retail electricity. While other s have been unwilling to construct generation, municipalities and cooperatives have been building generation plant in Texas and lowering borrowing costs for retail consumers by offering lenders a secure stream of revenues supported by retail load.

The Brattle Report describes five market design policy options and recommends that the Commission choose a policy path toward meeting its chosen resource adequacy objectives.<sup>4</sup> Golden Spread submits that, among the five market design options presented, the path discussed as Option 4, “Mandatory Resource Adequacy Requirement for LSEs [Load Serving Entities],” is the direction that best promotes a secure and efficient long run energy future for ERCOT consumers. As summarized in the Brattle Report, “ERCOT could facilitate an efficient bilateral market for capacity by qualifying resources into a standard, tradable resource adequacy product.”<sup>5</sup> Option 4 does not necessitate radical changes to ERCOT’s current market design and therefore may be capable of implementation quickly.

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<sup>2</sup> Brattle Report at 1.

<sup>3</sup> Id. at 2.

<sup>4</sup> The Brattle Report finds that the “energy-only market will not dependably support ERCOT’s current reliability target until sufficient demand response penetration is achieved.” Id. at 3.

<sup>5</sup> The Report notes, at footnote 231, that such a system would be “similar to the tradable Planning Resource Credit introduced in MISO.”

The Brattle Report acknowledges that market design policy Options 1, 2 and 3 do not provide a viable long-term solution to ERCOT's resource deficit. In fact, these approaches may add to price volatility and uncertainty, which will not improve the prospects for investment in generating capacity necessary to reliably serve growing demand in the ERCOT region.<sup>6</sup> As the Brattle Report states, "the critical question remains whether the recent and proposed reforms will be adequate and what other measures might be necessary to attract sufficient investment."<sup>7</sup>

Market design Option 4 could be implemented rapidly and economically by leveraging the existing systems ERCOT currently operates to manage the Renewable Energy Credits (REC) program. A similar system of "reliability credits" for participant contribution to reserve margin requirements should be considered. A bilateral ERCOT Resource Adequacy market design incorporating monthly resource adequacy compliance periods would allow the most flexibility for providing incentives to secure long-term financing to develop additional generation resources that can be dispatched in the ERCOT market. Additionally, a monthly compliance program would allow ERCOT the flexibility to manage reserve margin targets through different generation and load situations. Analysis by ERCOT may result in different reserve margin levels during different times of the year.

In short, Option 4 should be the focus of the Commission's continuing investigation because it helps ERCOT achieve reserve margins greater than 10%, helps minimize financing costs,<sup>8</sup> is consistent with the established bilateral contracting processes developed within ERCOT, and can be developed more quickly and at a lower cost than Option 5.

Golden Spread agrees with the Brattle Report's cautionary observation, however, that any market design changes not be implemented "too quickly or without sufficient analytical support

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<sup>6</sup> With respect to Option 1, the Brattle Report finds: "Unless there is a large amount of demand that will curtail voluntarily..., involuntary curtailment in an energy-only market may occur more often than customers, regulators, and policymakers find acceptable. Further, spot prices can be highly volatile...." Id. at 105. It notes the "main disadvantage" of Option 2 "is that it does not reliably achieve a particular reserve margin." Id. at 106. As for Option 3, the Brattle Report concludes that its disadvantages "are substantial." Id. at 109.

<sup>7</sup> Brattle Report at 1.

<sup>8</sup> See Brattle Report at 43-44.

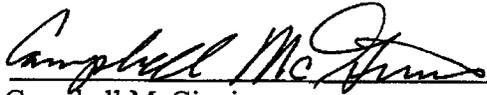
or stakeholder consideration” and that “market participants need to be allowed “ample time to prepare for the implementation....”<sup>9</sup> Therefore, Golden Spread recommends that the Commission focus on Option 4, but continue its careful investigation in Project 40268 to consider further stakeholder input and the details of the optimal market design changes to implement Option 4.

#### PRAYER

Wherefore, Golden Spread respectfully requests that the Commission determine that its further investigation in Project No. 40268 will focus on consideration of market design policy Option 4 and the details recommended for its implementation.

Respectfully submitted,

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By:   
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Date: July 11, 2012

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<sup>9</sup> Id. at 120.