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PUBLIC UTILITY COMMISSION
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COMMISSION PROCEEDING TO §
ENSURE RESOURCE ADEQUACY IN §
TEXAS §

PUBLIC UTILITY COMMISSION

OF TEXAS

**TEXAS ENERGY ASSOCIATION FOR MARKETERS'
COMMENTS ON RESOURCE ADEQUACY ISSUES**

The Texas Energy Association for Marketers (TEAM)¹ files these comments on the resource adequacy issues identified at the August 29, 2013 Open Meeting of the Public Utility Commission of Texas (Commission). TEAM has participated in all of the recent resource adequacy projects at the Commission and appreciates the opportunity to continue offering input to the work that the Commission, ERCOT, and market stakeholders have done to address potential challenges in the market's near future.

I. Introduction

TEAM consistently supports competitive market-based solutions to market design issues and advocates that any significant changes to the Texas electric market retain the fundamental structures that have made it the most successful competitive electricity market in the country. Specifically, as set out in the creation of this competitive retail market in Texas, retail electric providers must be independent companies that may not own generation or transmission and distribution utility facilities. Customer choice would be reduced significantly if the market were designed in such a way as to make it a practical necessity for retail electric providers to be affiliated with generation.

TEAM recognizes that maintaining an adequate and reliable supply of electricity generation in ERCOT is critical to maintaining long-term confidence and liquidity in the competitive market. TEAM is aware that the Commission has framed specific questions to be answered regarding the appropriate level for a reserve margin and whether or not that margin should be a mandate or a target. TEAM anticipates that the Commission will receive a wide

¹ The members of TEAM participating in these comments are: Accent Energy d/b/a IGS Energy; Cirro Energy; DPI Energy (d/b/a Trusmart); Entrust Energy; Just Energy; Spark Energy; Stream Energy; and TriEagle Energy.

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range of comments on these points and looks forward to working with the Commission in addressing these issues. In evaluating the policy decisions surrounding setting a reserve margin as a target or a mandate, the full consequences to the retail market to end-users must be considered.

TEAM is best positioned, to provide information on the potential retail market impacts of the potential market design changes that are being discussed for the wholesale generation market. Any design change to the wholesale market is going to incur costs that must ultimately be paid by consumers and it is imperative that these costs be analyzed and measured against whatever design change benefits are likely to be realized over a reasonable timeframe.

II. Retail Impacts of Ancillary Service Changes

Changes to the existing market design through modifications to ancillary service requirements have impacts to the retail market and retail customers that should be factored into such decisions. To the extent ancillary service charges are designed with any uplift to load, this creates unpredictable wholesale energy prices and creates additional risk in the ancillary services settlement process that cannot be hedged. Administrative changes to ancillary service requirements have the effect of reducing liquidity in the bilateral market for such services, at least for some transition time until the market is able to develop wholesale products that factor in this risk. The removal of liquidity in bilateral markets and the day-ahead market will make effective hedging more difficult due to decreased availability of hedges, will raise risk premiums. The Commission should be able to consider the potential effects on retail cost and pricing associated with these changes.

III. Potential Retail Impacts of a Forward Centralized Capacity Market

To the extent the Commission considers adopting a forward centralized capacity market, certain retail aspects of that market would need to be considered to avoid squelching the competitive retail options available to customers in Texas. The weather variability and load characteristics of Texas make the assignment of a capacity charge based on peak historic usage difficult to recover if that charge cannot be directly passed through to customers.

To the extent a forward capacity market assigns capacity charges to every meter based on projected load modeled from peak load data from the prior year, this charge applies evenly throughout the year regardless of actual usage for that meter at the time the charge applies. As a

result, in this market REP's would have a risk of non-recovery for their capacity payments. In many jurisdictions that currently have a forward centralized capacity market in place, the winter peak can be close to the summer peak. In Texas, where our summer peak is significantly higher than the shoulder months and the winter peak is not generally close to the summer peak, the recovery of capacity costs is more dependent on the customer being with the REP throughout the summer.

The Commission has experience with this type of charge in the area of TDU demand ratchets. With this type of charge, an REP would be charged the same capacity tag for an ESIID regardless of the amount of electricity used by that premise for the month. In a simplified example, a summer beach house would have the same capacity charge in the winter as in the summer even if it were closed down for the winter months.

If the Commission elects to pursue a forward capacity market then the pass through of capacity payments by REPs should be allowed in same manner as TDU charges. Markets function best when they are as transparent as possible. If capacity costs are required to support resource adequacy, they should be easily identifiable by consumers.

In addition, to the extent any capacity charges were to become essentially a non-bypassable charge to each ESIID, the Commission should consider the impact of uncollectible debt associated with that charge. In many of the other markets where such a charge has been implemented, the market operates with the option of "purchase of receivable" model, where the retailers are not left to pay third-party charges that were left unpaid by the customer. There are various mechanisms in Texas that could be implemented to address this concern, and this aspect of cost to the retail market should be incorporated in the discussions.

IV. System Wide Offer Caps Must be Analyzed in Any New Market Design

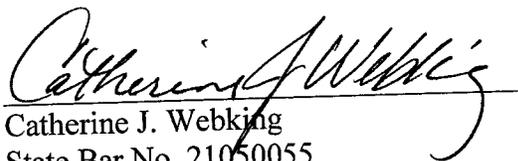
The cost impact of any market design modification should be modeled so that an understanding of the effects of a decision can be considered prior to implementation. This is also true of multiple market design modifications that are implemented in concert. The System Wide Offer Cap (SWOC) was increased in increments by the Commission in order to raise forward energy prices and incent generators into the market. As the Commission is aware, a high SWOC creates volatility in the market, has credit implications for market participants with ERCOT, increases hedging costs, and will not achieve a specific resource adequacy target.

If administratively-determined payments to generators are required for ERCOT to meet an acceptable level of resource adequacy, then unnecessary volatility should be removed by lowering these caps so that consumers are not placed in the “worst of both worlds” by paying for capacity all year long and being subject to highly volatile energy costs.

V. Conclusion

TEAM appreciates the opportunity to offer these comments and the comprehensive dedication to this issue demonstrated by the Commission, Commission Staff, and ERCOT market participants.

Respectfully submitted,



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