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PUC PROCEEDING RELATING TO § PUBLIC UTILITY COMMISSION
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**COMMENTS OF ALLIANCE FOR RETAIL MARKETS TO PRE-WORKSHOP
QUESTION POSED IN PUBLIC NOTICE**

The Alliance for Retail Markets (ARM)¹ timely files these Comments in response to the public notice issued by the Commission on May 20, 2011, which solicits interested parties to comment on the Electric Reliability Council of Texas (ERCOT) report "Review of the Potential Impacts of Proposed Environmental Regulations on the ERCOT System" ("ERCOT Report"), which was issued on May 11, 2011. This report evaluates the potential impact that certain proposed environmental regulations may have on generation facilities in the ERCOT power region. The ERCOT Report concludes that some fossil-fueled generation units may be retired as a result of these pending federal regulations, affecting both the power region's reserve margin and transmission reliability in localized areas.²

First and foremost, ARM continues to support the energy-only market design applicable to the ERCOT power region. In ARM's view, this framework for ensuring resource adequacy best suits the competitive energy market in Texas. This view is consistent with P.U.C. SUBST. R. 25.505, which provides mechanisms within this framework to encourage market participants to construct and maintain a mix of resources that ensure an adequate supply of electric service in the ERCOT power region.³ In Project No. 31972, the rulemaking project in which P.U.C. SUBST. R. 25.505 was originally adopted, the Commission concluded that a *market-based* approach to providing incentives for generation investment in the State is preferable to a

¹ The members of ARM supporting these Comments are: Champion Energy Services, LLC; Direct Energy LP; First Choice Power Special Purpose, LP; and Noble Americas Energy Solutions LLC.

² ERCOT Report at 17-18.

³ P.U.C. SUBST. R. 25.505(a).

regulation-based approach.⁴ ARM wholeheartedly agrees with that conclusion, both then and now.

In analyzing whether the pending federal environmental regulations will trigger the need for the development of additional generation in the State's competitive energy market, ARM urges the Commission to take a comprehensive approach and consider all relevant information and possible variables, in addition to that taken into account by the ERCOT Report. If the Commission concludes those regulations will create a resource adequacy issue for Texas, it should address the issue within the framework of the energy-only market rather than outside it. In other words, the Commission should look to enhance the current energy-only market design to further incentivize adequate and timely generation investment, but only as necessary to achieve its resource adequacy objectives. For example, it may decide to tweak its rules to ensure that the energy-only market design will provide the right price signals to encourage any needed generation investment on a timely basis without compromising system reliability.

ARM appreciates the opportunity to briefly comment on this important issue to the competitive retail market in Texas. It reserves the right to address any other issues in its reply comments filed in response to other interested parties' comments, as necessary.

⁴ Project No. 31972, *Rulemaking on Wholesale Electric Market Power and Resource Adequacy in the ERCOT Power Region*, Order Adopting Amendment to §25.502, New §25.504 and New §25.505 as Approved at the August 10, 2006 Open Meeting at 6 (Aug. 23, 2006). By way of background, the Commission directed Staff in July 2005 to draft a strawman resource adequacy rule providing for an energy-only market design in Project No. 24255, *Rulemaking Concerning Planning Reserve Margin Requirements*. The Commission closed Project No. 24255 in late October 2005 when it consolidated that proceeding with Project No. 29042, *Rulemaking on the Definition of Wholesale Electric Market Power in ERCOT*, into resulting Project No. 31972, which carried forward the concept of an energy-only market design for the ERCOT power region.

Respectfully submitted,



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