

PROJECT NO. 52373

RULEMAKING ON ERCOT

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PUBLIC UTILITY COMMISSION

MARKET DESIGN CHANGES

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OF TEXAS

U.S. PARTNERSHIP FOR RENEWABLE ENERGY FINANCE (PREF)

COMMENTS ON CHANGES TO ERCOT MARKET STRUCTURE

The U.S. Partnership for Renewable Energy Finance (PREF)¹ at the American Council on Renewable Energy (ACORE)² is an affiliation of leading companies that invest in renewable energy resources. PREF’s membership includes some of the nation’s foremost institutional investors, renewable energy developers, and corporate energy offtakers and consumers, including leading manufacturers and technology companies. PREF member companies have invested tens of billions of dollars in energy infrastructure in Texas, and we continue to support policies that ensure electric reliability and a level playing field for all energy resources in Texas’ ERCOT market.

Texas has attracted more than \$70 billion in new renewable energy investment because it is blessed with abundant renewable natural resources able to power low-cost, low-emission electricity generation.³ Additionally, it has a large and diverse industrial sector and a rapidly growing technology sector, both of which are increasingly looking to access local renewable power when making investment and siting decisions. Texas consumers have benefited from

¹ See <https://acore.org/pref-and-prime/> for more information about U.S. PREF and U.S. PREF members.

² ACORE is a national nonprofit organization dedicated to advancing the renewable energy sector through market development, policy changes and financial innovation.

³ “Clean Power Texas,” American Clean Power Association, May 2021, https://cleanpower.org/wp-content/uploads/2021/05/Texas_clean_energy_factsheet_Q2-2021.pdf.

lower costs and a cleaner environment by harnessing renewable energy. The Texas economy has benefited from investment, especially in rural areas, and the ability to use the availability of renewable power as a recruiting tool when attracting other industries and investment to the state.

Renewable energy development is currently providing more than \$270 million in state, local and property tax revenues this year, along with lease payments to farmers, ranchers and other landowners totaling over \$140 million annually.⁴ These revenue streams, which help fund school districts and local governments across the state, may be placed at risk by policy proposals now under consideration. In the communities where wind, solar, and energy storage projects have invested, they are often the top taxpayers to school districts and local governments.

Any changes made in the ERCOT market that undermine these investments and their longstanding contracts with corporate and commercial offtakers could devalue these projects, reducing their ad valorem value and decreasing the tax benefits they provide to Texas communities, especially harmful in areas where economic diversification has been driven largely by these projects. Further, we remain concerned that unjustified market changes that harm the more than \$70 billion in renewable generation investments will not only harm investors and communities, but deter future investments in the Texas market, contrary to the Commission's stated goals.

For example, assigning ancillary service costs exclusively or disproportionately to renewable generators would significantly undermine current investments, discourage future business

⁴ Ibid.

investment in Texas and significantly alter how ancillary costs have historically been allocated in Texas with no clear benefit. Moreover, it is important to note that ancillary service costs are not correlated with the levels of renewable energy deployment. While renewable deployment has grown more than 250% in ERCOT over the past decade, ancillary services purchases have remained relatively flat.⁵ Rather than improving grid reliability, retroactively changing renewable project economics risks driving existing generation offline, exacerbating the very problem that needs to be solved.⁶

Unbalanced cost allocation proposals appear to be premised on the discredited assumption that renewable energy was disproportionately responsible for the state's February power outages.⁷ Renewable energy provides affordable electricity that saves Texas consumers more than \$1 billion per year⁸ while the "fuel diversity" renewable energy delivers provides a hedge against rising fuel prices now occurring, which are already financially harming consumers.

Renewables have proven less susceptible to climate-induced weather extremes than thermal generation, such as natural gas, coal, or nuclear power.⁹ In fact, while wind power outperformed

⁵ "ERCOT Ancillary Services Purchase History," Advanced Power Alliance, https://poweralliance.org/wp-content/uploads/2021/03/APA-Ancillary-Services-Purchase-History-2021_03.pdf.

⁶ Extant renewable projects are financed according to the current, beneficiary-pays model of market operations. A new, disproportionate charge would alter project economics, risking projects' continued operation due to an inability to recoup such costs under already-signed power purchase agreements.

⁷ For net generator outages and derates by fuel type during the February 2021 power outages, see slide 16 of the ERCOT report, "Update to April 6, 2021 Preliminary Report on Causes of Generator Outages and Derates During the February 2021 Extreme Cold Weather Event," April 27, 2021. http://www.ercot.com/content/wcm/lists/226521/ERCOT_Winter_Storm_Generator_Outages_By_Cause_Updated_Report_4.27.21.pdf

⁸ Informational filing by Invenergy LLC, "Report: The Long-Term Impacts of Marginal Losses on Texas Electric Retail Customers," Docket No. 47199, April 20, 2018.

⁹ According to the North American Electric Reliability Corporation (NERC), fossil fuel facilities relying on natural gas and coal are particularly susceptible to damages due to low temperatures, such as frozen coal stockpiles and disrupted natural gas pipelines, and are thus the largest sources of cold weather-related power outages. In fact, coal and gas generators made up 81% of power outages during the 2014 Polar Vortex. See "Polar Vortex set to test

forecasts across the state during the vast majority of the February power outages, thermal power plants did the opposite — with nearly twice the amount of generation going offline as projected under ERCOT’s “extreme” generator outage scenario.¹⁰ It is also relevant to note that the lights largely stayed on in the parts of Texas served by the adjacent grid operator, Southwest Power Pool (SPP), which has a greater reliance on renewable energy.¹¹

This dynamic recently repeated itself again when ERCOT reported that unplanned thermal generation outages were largely responsible for June’s capacity shortfalls, with 75% of the lost megawatts coming from natural gas, coal, and nuclear power.¹² It has been repeatedly noted that Texas has sufficient “dispatchable” generation capacity, but that capacity has failed to “show up” when needed the most either due to fuel supply challenges, transmission constraints, mechanical failure, maintenance delays, or other issues. We urge you to focus your attention on addressing these challenges, and not impose unrealistic expectations and unjustified market changes on renewable energy resources that have performed largely as expected, delivering lower-cost and lower-emission power while acting as a fuel price hedge to protect consumers in a rapidly growing state.

Midwest grids amid FERC resilience debate,” UtilityDive, January 30, 2019,

<https://www.utilitydive.com/news/polar-vortex-set-to-test-midwest-grids-amid-ferc-resilience-debate/547231/>.

¹⁰ “Power experts cite gas constraints as main cause of ERCOT outages, but system planning questions remain,” UtilityDive, February 18, 2021, <https://www.utilitydive.com/news/power-experts-cite-gas-constraints-as-main-cause-of-ercot-outages-but-syst/595255/>.

¹¹ Parts of the Texas panhandle, which are part of SPP instead of ERCOT, saw significantly reduced February outages. See “You might have heard that Texas has its own power grid. Did you know not all parts of the state use it?” The Texas Tribune, February 18, 2021, <https://www.texastribune.org/2021/02/18/texas-power-grid-outage-ercot/>. Furthermore, SPP generation capacity is approximately one-third renewable while ERCOT generation capacity is only one-quarter renewable. See “SPP Fast Facts” at <https://spp.org/about-us/fast-facts/> and “ERCOT Fact Sheet, November 2020” at http://www.ercot.com/content/wcm/lists/197391/ERCOT_Fact_Sheet_11.10.20.pdf.

¹² “Texas grid operator urges electricity conservation as many power generators are unexpectedly offline and temperatures rise,” The Texas Tribune, June 14, 2021, <https://www.texastribune.org/2021/06/14/texas-power-grid-conserve-ercot/>.

In light of the record, and the wide-ranging benefits renewable energy investment brings to Texas, we respectfully urge a focus on technology-neutral policy proposals that genuinely enhance electric reliability and avoid inadvertently undermining business investments made in the state. Any assignment of costs should be based on cost causation principles, and any new ancillary service products should allow for non-discriminatory provision of those services based on the capability, and not the type, of the resource to actually improve reliability. Texas benefits from a balanced generation portfolio that leverages the attributes of each energy resource to deliver affordability and reliability while reducing emissions. We urge you to encourage that diversity to continue, for the benefit of Texas consumers and the Texas economy.

U.S. PREF appreciates the opportunity to offer comments in this proceeding and looks forward to working with Public Utility Commission members and staff in the effort to enact policies that enhance Texas' energy systems and economic future.

Respectfully submitted,

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