

**PROJECT NO. 52373**

**RULEMAKING ON ERCOT**

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**PUBLIC UTILITY COMMISSION**

**MARKET DESIGN CHANGES**

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**OF TEXAS**

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

**COMMENTS ON CHANGES TO ERCOT MARKET STRUCTURE**

The U.S. Partnership for Renewable Energy Finance (PREF)<sup>1</sup> at the American Council on Renewable Energy (ACORE)<sup>2</sup> 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, 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 the 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.<sup>3</sup> 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 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.

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

<sup>2</sup> ACORE is a national nonprofit organization dedicated to advancing the renewable energy sector.

<sup>3</sup> "Clean Power Texas," American Clean Power Association, May 2021, [https://cleanpower.org/wp-content/uploads/2021/05/Texas\\_clean\\_energy\\_factsheet\\_Q2-2021.pdf](https://cleanpower.org/wp-content/uploads/2021/05/Texas_clean_energy_factsheet_Q2-2021.pdf).

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.<sup>4</sup> 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 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, as contemplated under the Commission's proposed Phase I market design changes, assigning ancillary service costs exclusively or disproportionately to renewable generators would significantly undermine current investments, discourage future business 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.<sup>5</sup> Rather than improving grid reliability, retroactively changing

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<sup>4</sup> Ibid.

<sup>5</sup> "ERCOT Ancillary Services Purchase History," Advanced Power Alliance, [https://poweralliance.org/wp-content/uploads/2021/03/APA-Ancillary-Services-Purchase-History-2021\\_03.pdf](https://poweralliance.org/wp-content/uploads/2021/03/APA-Ancillary-Services-Purchase-History-2021_03.pdf).

renewable project economics risks driving existing generation offline, exacerbating the very problem that needs to be solved.<sup>6</sup>

Unbalanced cost allocation proposals seem to be premised on unverified assumptions of the potential future impact of ramping needs in ERCOT due to the growth in renewable energy. In fact, ERCOT<sup>7</sup> has indicated that those ramps can be well managed within the existing energy and ancillary services market, and with some additional ancillary services to cover potential forced outages and unit commitment errors. At a minimum these proposals merit a rigorous and transparent analysis that incorporates stakeholder feedback in the development of assumptions and methodologies as well as the results. Renewable energy provides affordable electricity that saves Texas consumers more than \$1 billion per year<sup>8</sup> while the “fuel diversity” renewable energy delivers provides a hedge against rising fuel prices now occurring and financially harming consumers. Any assignment of costs should be premised on cost-causation principles in a nondiscriminatory manner pursuant to SB 3.

While we applaud the Commission’s ongoing work on grid resilience, transmission expansion, demand response and changes to the Operating Reserve Demand Curve, PREF recommends the Commission perform a more thorough analysis to evaluate both Phase I and Phase II market design options now under consideration in order to fully understand their potential impacts on consumers and business investment in Texas. The state’s robust renewable investments and revenue streams may be at risk under policy proposals lacking clear data.<sup>9</sup> Further, the Phase II process should be transparent, with ample time for stakeholder input into the assumptions and the analysis.

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

<sup>7</sup> Project No. 52373, Item No. 20 – at slide 26 [https://interchange.puc.texas.gov/Documents/52373\\_244\\_1165389.PDF](https://interchange.puc.texas.gov/Documents/52373_244_1165389.PDF)

<sup>8</sup> Informational filing by Invenenergy LLC, “Report: The Long-Term Impacts of Marginal Losses on Texas Electric Retail Customers,” Docket No. 47199, April 20, 2018.

<sup>9</sup> See November 23, 2021 U.S. PREF Letter to PUCT Commissioners: <https://acore.org/wp-content/uploads/2021/11/U.S.-Partnership-for-Renewable-Energy-Finance-Letter-on-ERCOT-Wholesale-Electric-Market-Design.pdf>

We would also note that the ERCOT interconnection queue contains 10.4 GW of battery storage co-located with solar and wind resources, and an additional 24.4 GW of stand-alone energy storage.<sup>10</sup> These projects are critical to maintaining reliability as the system faces load growth and plant retirements. A gap in deployment of energy storage and hybrid resources could have devastating consequences for the ERCOT grid, and adopting a new market structure without proper diligence has the potential to create regulatory uncertainty, potentially stalling investment in these and other critical resources.

Given the tremendous economic benefits renewable energy investment brings to Texas, we urge thoughtful deliberation on long-term market redesign proposals once the system needs are analyzed. Our member companies are eager to invest in the future of the ERCOT market, and we encourage you to provide the clarity needed to deploy their resources in Texas. We urge that any market design proposal be analyzed in conjunction with any other long-term market design enhancements. Again, we encourage the commission to take a deliberate approach to Phase II that would include data to support the identified proposals and their principles.

U.S. PEF values the opportunity to offer comments in this proceeding and looks forward to working with Public Utility Commission members and staff in this effort.

Respectfully submitted,

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<sup>10</sup> ERCOT Report, “Co-located Battery Identification Report October 2021” December 8, 2021.  
<https://www.ercot.com/misapp/GetReports.do?reportTypeId=15933&reportTitle=GIS%20Report&showHTMLView=&mimicKey>

## Executive Summary

The U.S. Partnership for Renewable Energy Finance (PREF)<sup>11</sup> at the American Council on Renewable Energy (ACORE)<sup>12</sup> is an affiliation of companies investing in renewable energy. PREF's membership includes institutional investors, renewable energy developers, and corporate energy offtakers, including technology companies. Members invest billions of energy infrastructure dollars in Texas, and we support policies that ensure a level playing field for all energy resources.

While we applaud the Commission's ongoing work on grid resilience, transmission expansion, demand response and changes to the Operating Reserve Demand Curve, PREF recommends the Commission perform a more thorough analysis to evaluate Phase I implementation and Phase II market design options now under consideration in order to fully understand their potential impacts on consumers and business investment in Texas. The state's robust energy investments and revenue streams may be at risk under policy proposals lacking clear data.<sup>13</sup> Further, a gap in deployment of energy storage and hybrid resources could have devastating consequences for the ERCOT grid and adopting a new market structure without proper diligence has the potential to create regulatory uncertainty, potentially stalling investment.

Thoughtful deliberation is necessary on long-term market redesign proposals once the system needs are analyzed. We urge that any market design proposal be analyzed in conjunction with any other long-term market design enhancements. Through proposal clarity coupled with data supporting Phase II proposals, energy resources can be appropriately deployed.

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<sup>13</sup> See November 23, 2021 U.S. PREF Letter to PUCT Commissioners: <https://acore.org/wp-content/uploads/2021/11/U.S.-Partnership-for-Renewable-Energy-Finance-Letter-on-ERCOT-Wholesale-Electric-Market-Design.pdf>