Since deregulation of the Texas electricity market more than 20 years ago, the Electric Reliability Council of Texas (ERCOT) market has evolved to meet extraordinary growth in consumer demand with an ever-evolving mix of generation resources that saves consumers billions of dollars every year.\(^1\)

While ERCOT has traditionally experienced its tightest supply and demand conditions during the summer, it is now experiencing tight conditions at other times of year due to variability associated with missed demand forecasts, higher-than-anticipated thermal outages, and lower production from renewable resources.

In response, policymakers and regulators have undertaken an effort to reform and recreate certain aspects of the electric market. To start, they enacted reforms to the existing market, including, but not limited to:

- requiring *weatherization* of generation and transmission facilities;
- creating a *natural gas supply chain map*;
- modifying *scarcity price signals*, and
- creating a *firm fuel product*.

These “Phase I” reforms have injected billions of dollars in new revenue into the ERCOT Market – an amount that the Independent Market Monitor (IMM) contends is more than sufficient to support new investment in dispatchable generation.\(^2,3\) **This declaration by the IMM gets to the heart of the disagreement among stakeholders:**

**Does ERCOT require fundamental changes to address a shortage of dispatchable generation?**

**OR**

**Is our current generation fleet sufficient, and instead requires more targeted changes to ensure resource availability to address real-time operational uncertainty due to variable system conditions?**

The Public Utility Commission of Texas (PUCT), believing fundamental change is needed, has moved to reshape the basic construct of the ERCOT market with the stated goal of incentivizing more dispatchable power and retaining existing thermal generation resources. To help with this project, the PUCT enlisted a consultant to study the market, who suggested a capacity market.

Commissioners of the PUCT, however, chose a slightly different route. Their preferred design, a novel concept called the Performance Credit Mechanism (“PCM”), would transfer massive amounts of wealth from consumers of electricity to thermal generators by diverting nearly $6 billion per year from the energy-only market to dispatchable resources based on their availability (not performance) during times of low power reserves. **Despite the consultant’s analysis and recommendation that a technology-neutral approach would reduce consumer costs, the PUCT has made clear that it intends to structure the PCM in a manner that will deliberately exclude renewable resources, costing Texas consumers more.\(^5\)**
The Advanced Power Alliance (APA), on behalf of its diverse membership of power producers, elected to join a coalition of stakeholders including large industrial consumers, retail electric providers, public power entities, and others to support a competitive, technology-agnostic reliability service that enables ERCOT to address real-time operational concerns to enhance reliability, without placing undue risk or excessive new costs on consumers of electricity. APA membership has agreed upon a set of principles to guide their collective stance on proposals brought up for discussion at the PUCT or the in the Legislature. Key principles include:

**Must balance costs and benefits**
All proposed reforms to the current energy market should balance the cost to consumers against the actual benefit gained. If Texans are paying, they deserve the most efficient, cost-effective product available.

**Must embrace tech neutrality**
To achieve the appropriate balance, non-discriminatory treatment of generation resources is paramount. Look no further than the existing, competitive market for an example of a diverse supply mix, which ensures that Texans always pay the lowest available price for their energy.

**Robust transmission is essential to reliability**
Policymakers should never lose sight of the need for increased transmission infrastructure to transport power to consumers. While not a reform of the market, a refocused approach to transmission planning could alleviate many of the reliability concerns in ERCOT by ensuring that all available megawatts in our rapidly growing state are deliverable and not constrained due to insufficient transmission capacity.

As the conversation around market design shifts to the Texas Legislature, APA will continue to advocate for a system that provides the lowest-cost power for consumers, maintains the existing market framework, is non-discriminatory in nature, and promotes resource competition for the benefit of Texas ratepayers.

1 Rhodes, Joshua D. The Impact of Renewables in ERCOT. October 2022.
2 “Dispatchable generation”: used to describe (typically thermal) generation resources which can adjust their power output according to an order from system operators.
4 “Capacity market”: market construct in which generation resources are compensated simply for being available to meet electricity demand.