Texas Regulatory Update

February 5, 2025

1

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Performance Credit Mechanism (PCM)

- PCM is a modified capacity market concept, developed by E3 at the PUCT's request.
  - Capacity payments would be made to resources that were "available" during certain key hours, but after-the-fact instead of prospectively like a traditional cap mkt.
  - Payments based on a multiplier of Cost of New Entry (CONE) and an assessment of resource adequacy.
  - Cost estimates (uncapped) ranged from $400M to $25B per year, depending on the assumptions.
  - Presumption that most (if not all) revenue would go to dispatchable generation.

Reference: PUC Project No 54335 (Item 2, E3 Report), Project No. 53298 (Item 23, PCM Blueprint) and Project No. 55000 (Items 42, 43, PCM Design Parameters)

2

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Performance Credit Mechanism (PCM)

- HB 1500 (88R) Guardrails
  - Key feature: $1B “net” cost cap
    - Major disagreements over what “net” means
    - E3 and others proposed counterfactual modeling of energy savings.
    - Others opposed this as speculative and giving too much discretion to adjust cap.
    - Ultimately PUCT decided to use a “gross” cost cap instead of a net cap to ensure compliance.
  - Cost studies required by ERCOT and IMM
    - IMM and ERCOT completed PCM cost studies, with significant differences.
    - IMM estimated “net” annual costs of $350-725M; ERCOT estimated $12M.
  - **On Dec 20th, the PUCT decided to “shelve” further implementation of the PCM.**

Reference: PUC Docket No. 55000, Items 45 and 46 (Cost Studies), Item 48 *(Gleeson Memo)*

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Reliability Standard

- PUCT has been considering a “Reliability Standard” over the past two years.
  - “1-event-in-10-years” standard considered outdated; doesn’t capture qualitative differences in outages such as magnitude or duration.
  - Some argued this was required by SB3 from 87R Session.
  - Is the standard “mandatory,” or a “target”? What does this even mean?
- ERCOT proposed separately solving for three variables: frequency, magnitude and duration
  - Sounds reasonable, but very sensitive to assumptions and “tail” events can be given unrealistic probabilities. Conservative assumptions are “pancaked.”
  - IMM and others preferred an “expected unserved energy” (EUE) target.
  - “Probability of Exceedance” becomes very important – i.e., likelihood of the predicted conditions
  - Modeling also heavily skewed by a few hours during Uri where we have no actual load data.

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Reliability Standard

- Reliability Standard officially adopted on August 29
  - Includes separate consideration of duration, frequency and magnitude with the following guidelines:
    - Frequency – no more than once per ten years on average
    - Duration –12 hours or less
    - Magnitude – Less than the amount of electricity that can be safely rotated during an outage
  - Probability of exceedances for duration and magnitude were set at 1% to moderate results driven by very low probability "tail" events in the model.
- What does this mean?
  - ERCOT will conduct an assessment using the new standard in 2026.
  - PUC will consider ERCOT's assessment and decide what market changes, if any, need to be made.
  - No "automated" market design adjustments or additional revenue streams at this time.

Reference: Project No. 54584, Item 106 (Order).

Other Wholesale Market Design Issues

- Value of Lost Load
  - PUCT updated the Value of Lost Load (VOLL) to $140,000/MWh.
  - *See Project No. 55837 for background*
- Cost of New Entry
  - PUCT Updated the Cost of New Entry on July 25 to $140,000/kW-year.
    - Based on Frame CT, real levelization
    - *See Project No. 55000, Item 43 (n. 4) and Project 54584, Item 100*
- So what?
  - Without a capacity market, these values have no immediate impact on the market, but will be used for economic evaluations of market design changes going forward.
  - Values will inform decisions made to comply with reliability standard.

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