

## Background

- **Advanced energy** is a broad range of products and services that constitute the best available technologies for meeting energy needs today and tomorrow.
  - TAEBA companies compete in ERCOT markets, providing energy storage and other competitive services such as, but not limited to: demand response; distributed and large-scale solar, wind and natural gas generation; electric vehicles and charging equipment; combined heat and power; and energy efficiency.
  - TAEBA companies also provide technologies and services to residential, commercial, and industrial customers, utilities, and retail electric providers.
- **PUCT Docket No. 46368:** AEP Texas North Company applied for approval from the PUCT to install utility-scale batteries as a less-expensive response to a specific reliability problem.
  - There is substantial disagreement on whether a utility can own assets that could be active in competitive markets.
  - Most parties agree that utilities generally should not own these assets.
- **Rulemaking:** The PUCT dismissed the case for lack of information, instead opening rulemaking Project No. 48023 exploring use of non-traditional technologies in electric delivery service.
  - Rulemaking is now on-hold, giving legislators an opportunity to clarify the statute.

## The Legislature Decided in 1999 that Competition is Better than Regulation

- Public Utility Regulatory Act (PURA) §39.001(d) requires the PUCT to “authorize or order competitive rather than regulatory methods to achieve the goals of this chapter to the greatest extent feasible...”
- In considering how to address the interplay between energy storage and a utility’s role, the Legislature should consider whether proposed statutory changes would:
  - Promote competition over regulation; and
  - Result in customers having more or less opportunity to participate, if desired, in competitive markets, including provision of reliability services.

## Competitive Markets for Energy Storage Are Growing — They Provide the Best Use of Energy Storage as a Market Resource

- Currently, 89 MW of utility-scale battery resources are registered with ERCOT, and another 2300 MW has requested interconnection. ERCOT estimates there are about 1300 MW of additional, customer-sited distributed energy resources (some of which is storage) throughout the system.
- Energy storage, such as a battery, can provide value to competitive markets.
  - It could also provide reliability services to regulated utilities through a contract for service.
- The opposite arrangement — having a utility own a battery and provide services to competitive markets — is not available because *utilities cannot provide competitive services.*
  - Thus, the competitive services model is the best way to ensure these assets provide the most value in a competitive, market-based system.

### **Greater Utility Transparency Will Promote Competition**

- Underdeveloped demand-side market participation has been identified as a major shortcoming to proper wholesale price formation in ERCOT.<sup>1</sup>
  - To address it, Texas should enable integration of distributed energy resources (DERs) in the system.
- Utility distribution systems are “black boxes,” into which ERCOT, customers, and other market participants have no transparency.
  - Consumers and competitive firms generally do not have adequate information regarding where there are reliability issues.
  - With such information, market competition probably could solve many of these issues.
- To capture the full benefits of competition, utilities and grid operators must incorporate customer-owned DERs into grid planning and operations.
  - The PUCT should be directed to adopt rules that facilitate competition by increasing transparency in utility distribution system planning.

### **Existing Law Provides a Disincentive to Competition for Reliability Services**

- Under traditional regulatory methods, utilities have an incentive to build and own assets rather than contracting for services, and a disincentive to contract for reliability services.
  - Traditional regulation allows utilities to earn a profit on capital assets and generally treats contracts as an expense.
- To facilitate competition in the provision of market services, including reliability services, the PUCT should be directed to adopt rules removing existing disincentives to competition.
  - This change would also provide more flexibility for utilities to solve reliability issues.

### **CONCLUSION: The PUCT Should Have Authority to Approve Utility Installations of Storage, But Only if Competition Fails to Provide a Solution**

- **Competitive markets will inevitably provide the most preferred solutions to reliability issues.**
  - Only with increased transparency and proper price signals will full competition be achievable.
- **The second-best alternative is for utilities to contract with a competitive service provider for reliability services.**
  - Existing barriers that prevent utilities from contracting with competitive providers must be removed to facilitate these options.
- **The very last, least competitive approach is utility investment in energy storage.**
  - PUCT should restrict it to very limited circumstances where competition has failed to deliver a solution.

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<sup>1</sup> FTI Consulting, Priorities for the Evolution of an Energy-Only Electricity Market Design in ERCOT (May 2017) at 13.