**Project no. 48721**

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| **RULEMAKING PROCEEDING TO AMEND 16 TAC §25.505, RELATING TO RESOURCE ADEQUACY IN THE ELECTRIC RELIABILITY COUNCIL OF TEXAS POWER REGION** | **§**  **§**  **§**  **§** | **Public utility commission**  **Of texas** |

**TEXAS COMPETITIVE POWER ADVOCATES (TCPA) COMMENTS ON THE PROPOSAL FOR PUBLICATION**

Texas Competitive Power Advocates (TCPA) is a trade association representing power generation companies, wholesale power marketers, and retail electric providers with investments in Texas and the Electric Reliability Council of Texas (ERCOT) wholesale electric market. TCPA members and their affiliates provide a wide range of important market functions and services in ERCOT, including the development, operation, and management of power generation assets, the scheduling and marketing of power, the provision of energy management services, and the sales of competitive electric service to consumers. TCPA members provide approximately sixty percent (60%) of the total net operable electric generating capacity in ERCOT, representing billions of dollars of investment in the state, and employing thousands of Texans. TCPA appreciates the opportunity to provide comments on the proposed rule changes as well as the Commission’s question regarding elimination of the Low System-Wide Offer Cap from the scarcity pricing mechanism.

As detailed below, TCPA recommends that the Commission:

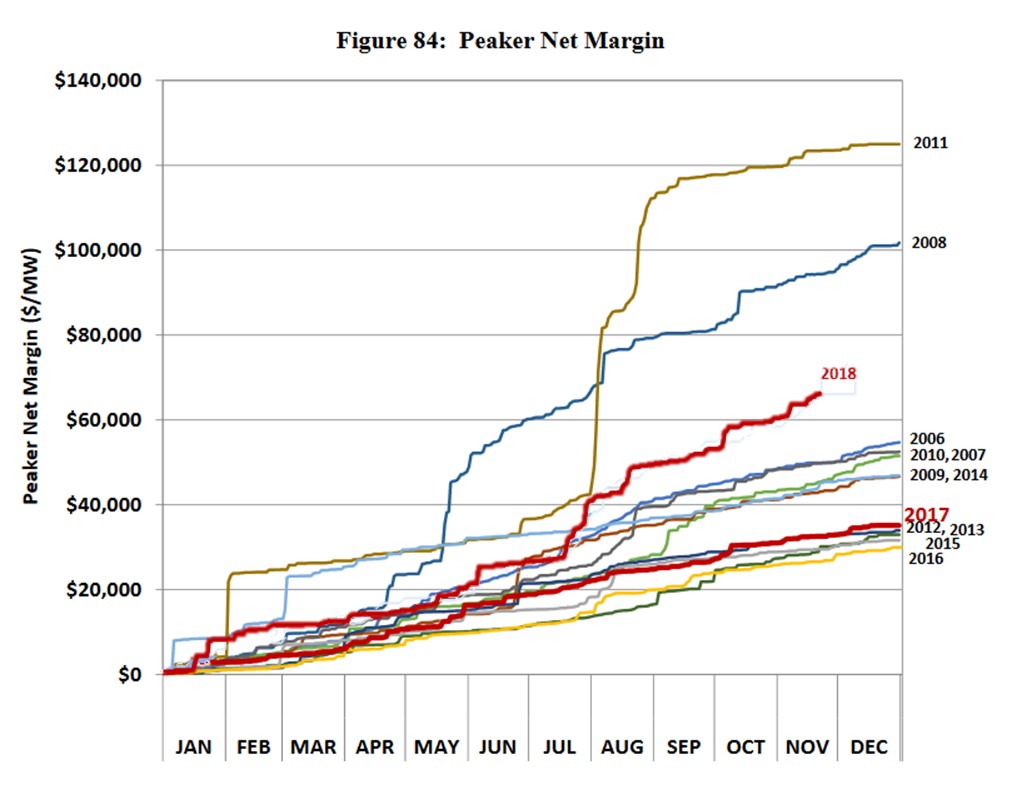
* Eliminate the Low System-Wide Offer Cap (LCAP) (preferred option).
  + Alternatively: (i) increase the LCAP to $4,500/MWh; (ii) retain the Operating Reserve Demand Curve (ORDC) and Reliability Deployment Price Adder (RDPA) in all circumstances, but if the LCAP is triggered, reset the Value of Lost Load (VOLL) to LCAP; and (iii) refrain from stating that energy prices will never exceed the LCAP if triggered (given realities related to the pricing of congestion management).
* Retain, but streamline and update, reporting requirements for ERCOT in subsection (f) of the existing rule and, if the LCAP is eliminated, move the requirement for ERCOT to continue to report the Peaker Net Margin (PNM) to that subsection.
* Make other stylistic and clarifying changes detailed below, including a restyling of the proposed rule and relevant sections to use the more descriptive “Scarcity Pricing Parameters” instead of “Scarcity Pricing Mechanism.”

**I. Response to Commission Question**

**As an alternative to the changes in §25.505(f)(6)(A) of the proposed rule, should the commission instead consider eliminating the Low System-Wide Offer Cap from the scarcity pricing mechanism?**

TCPA recommends the Commission eliminate the LCAP. In an energy-only market, energy pricing signals are the sole incentive for both new entry and continued operation of existing resources. Thus, as a matter of principle, even in the face of persistent scarcity conditions in a given year, an energy-only market should not artificially lower scarcity prices, but, instead, should continue to allow prices to appropriately reflect those conditions.

As is evidenced by the perpetual debate about resource adequacy in ERCOT, when prices are too low to incent additional resources to come to market or even to retain existing resources, it can take years of substantial discourse before solutions are implemented that adequately correct for that failure.[[1]](#footnote-1) Given this reality, the ERCOT market design should not include mechanisms that are facially inconsistent with the goal of promoting resource adequacy in an energy-only market. The LCAP represents a fundamental asymmetry of the ERCOT energy-only market structure—one in which persistent low wholesale power prices can push the market to the brink of resource inadequacy,[[2]](#footnote-2) but high wholesale power prices driven by resource shortages would be capped, potentially handicapping the ability of the market to fully signal the investment that is needed. TCPA understands and appreciates that a former Commission instituted the LCAP to balance the need to “protect [unhedged] loads from persistent high prices, while providing sufficient high-price signals to entice new generation into the market.”[[3]](#footnote-3) However, the ensuing nearly 13 years of market outcomes—including extreme spikes in the price of natural gas (2008), record-breaking extreme temperatures (2011), and rapidly contracting reserve margins (2018)—have yet to demonstrate a practical need for the LCAP mechanism, as PNM has never exceeded the LCAP threshold,[[4]](#footnote-4) and in most years, has never even reached the half-way point:[[5]](#footnote-5)



Furthermore, inherent to the LCAP concept is an inconsistency regarding the value of avoiding firm load shed when market conditions are tight. In asking this question regarding whether the LCAP should be eliminated, the Commission is effectively asking whether scarcity should be consistently represented in market prices in an energy-only market. TCPA believes that the only answer truly rooted in the energy-only market construct is “yes,” and that the logical conclusion is therefore to eliminate the complicating (and heretofore unnecessary) LCAP mechanism. Scarcity and an associated reliability risk either exists or it does not, and should be priced as such in a true energy-only market.

From a market incentives standpoint, it is worth noting that even if scarcity pricing were to be sustained for long enough to reach the PNM trigger for the LCAP, most end-use customers should be protected from that exposure due to their contracting with retail electric providers (REPs) that should have hedged their customers’ load to limit their financial risk. And while it is impossible to predict the precise market signals that would give rise to such a scenario, it is fair to assume that sustained scarcity pricing at that level would quickly draw increased investment into the wholesale market; prompt planned resources to accelerate their commercial operation date if possible; and incentivize existing resources to perform upgrades and expansions and mothballed resources to return to service as quickly as possible, naturally limiting the duration of sustained scarcity pricing.

In sum, the Commission could—and TCPA believes should—eliminate the LCAP mechanism with no detrimental impact to customers and likely with no impact at all, beyond providing existing resources and potential investors with an important and appropriate signal of the Commission’s commitment to the energy-only market design. Should the Commission agree, TCPA proposes that the subsection currently titled “Scarcity pricing mechanism” be restyled as “Scarcity pricing parameters”; repurposed to set the System Wide Offer Cap (SWOC); revised to add a definition of the VOLL, as it is another key scarcity pricing parameter; and revised to clarify the purpose for the Independent Market Monitor’s evaluation of the scarcity pricing parameters. In addition, the Commission should continue to direct ERCOT to publish the PNM for informational purposes, as it can provide a valuable independent look at the state of the ERCOT market for the current year. However, if the Commission agrees that the LCAP is unnecessary and should be eliminated, then that requirement should be moved to existing subsection (f), which TCPA recommends the Commission retain, as discussed in the next section:[[6]](#footnote-6)

(~~f~~g) **~~Scarcity pricing mechanism (SPM)~~ Scarcity pricing parameters.** ~~ERCOT will administer t~~The ~~SPM~~ scarcity pricing parameters are as follows: ~~The SPM will operate as follows:~~

~~(1) The SPM will operate on an annual calendar year basis.~~

~~(2) For each day, the peaking operating cost (POC) will be 10 times the natural gas price index value determined by ERCOT. The POC is calculated in dollars per megawatt-hour (MWh).~~

~~(3) For the purpose of this section, the real-time energy price (RTEP) shall be measured as an average system-wide price as determined by ERCOT.~~

~~(4) In the annual resource adequacy cycle, the peaker net margin will be calculated as: ∑((RTEP – POC) \* (number of minutes in a settlement interval / 60 minutes per hour)) for each settlement interval when RTEP – POC >0.~~

~~(5) Each day, ERCOT will post at a publicly accessible location on its website the updated value of the peaker net margin, in dollars per megawatt (MW).~~

(~~6~~1) The system-wide offer ~~caps~~ cap will be ~~as follows:~~

~~(A) The low system-wide offer cap (LCAP) will be set on a daily basis at the greater of:~~

~~(i) $2,000 per MWh and $2,000 per MW per hour; or~~

~~(ii) 50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour.~~

~~(B) The high system-wide offer cap (HCAP)~~ ~~will be~~ $9,000 per MWh and $9,000 per MW per hour.

(2) The Value of Lost Load will be $9,000 per MWh and $9,000 per MW per hour.

~~(C) The system-wide offer cap will be set equal to the HCAP at the beginning of each calendar year and maintained at this level as long as the peaker net margin during a calendar year does not exceed a threshold of three times the cost of new entry of new generation plants.~~

~~(D) If the peaker net margin exceeds the threshold established in subparagraph (C) of this paragraph during a calendar year, the system-wide offer cap will be set to the LCAP for the remainder of that calendar year. In this event, ERCOT will not apply any administrative pricing mechanism, such as the operating reserve demand curve or the reliability deployment price adder, for the remainder of that calendar year. Energy prices will not exceed the LCAP for the remainder of that calendar year.~~

(~~E~~3) The Independent Market Monitor, as part of its responsibilities under Public Utility Regulatory Act §39.1515(h), may conduct an annual review of the effectiveness of the ~~SPM~~ scarcity pricing parameters at incentivizing an appropriate level of resource adequacy.

**II. Comments and Proposed Changes to Rule**

If the Commission decides to retain the LCAP mechanism, then TCPA offers several alternative recommendations in Section II.A below (which is numbered subsection (g) by TCPA and subsection (f) in the proposed rule). Sections II.B and II.C, respectively regarding stylistic changes and the retention of the data reporting requirements in current subsection (f) of the rule, are recommendations that TCPA makes independent of the Commission’s decision regarding LCAP.

A. TCPA’s alternative proposed modifications to existing subsection (g) (renumbered as subsection (f) in the proposed rule)

TCPA suggests a number of modifications to existing subsection (g) of § 25.505 (which the proposed rule has re-numbered to subsection (f)), should the Commission decide to retain the LCAP.

First, if the LCAP is triggered, the ORDC should remain in effect to continue to provide some (albeit reduced) scarcity pricing signals in the event of scarcity during the remainder of the resource adequacy cycle. If the concern is related to the potential for divergence between the Day-Ahead Market (DAM) and Real-Time Market (RTM) if the LCAP is triggered and the ORDC is retained,[[7]](#footnote-7) then that could be addressed by setting the VOLL equal to the LCAP and does not require that the ORDC be suspended altogether. This is important because the ORDC is not only intended to provide longer-term scarcity signals but also short-term scarcity signals that encourage generators to quickly respond to grid demands in real-time.

Second, the RDPA also should continue in effect if the LCAP is triggered. Importantly, the RDPA is not a scarcity pricing mechanism, so there is no reason to suspend its operation in the event of persistent scarcity conditions in a given year. Rather, the purpose of the RDPA is to correct the price reversal or suppression associated with out-of-market reliability deployments by ERCOT, which may or may not occur during scarcity conditions.[[8]](#footnote-8) It achieves this by running SCED a second time but assuming that any capacity committed via out-of-market activities is not available. While its impact is typically very small, it is an important principle to uphold in the ERCOT energy-only market that energy prices should not be suppressed by the administrative actions of the grid operator.

Third, the Commission should strike the proposed language stating that “energy prices will not exceed the LCAP” in the event it is triggered, because the interplay of shadow price caps and shift factors in congestion management can still result in prices that exceed the SWOC (whether it is set at the HCAP or the LCAP). Specifically, the shadow price directly determines the locational marginal price (LMP), and it represents the marginal value of a resource that is needed to resolve a transmission or power balance constraint.[[9]](#footnote-9) While there are caps on the shadow price that are generally at or below the HCAP,[[10]](#footnote-10) the actual LMP can exceed the SWOC in certain circumstances. As explained by ERCOT in its methodology document for setting maximum shadow prices:

**The LMP at an individual node, hub or load zone can exceed the system-wide offer cap in some circumstances**. This is most likely to occur when there are one or more irresolvable constraints on the system *and* when overall dispatchable supply on the system is tight. Relatively speaking, it is more likely that individual node prices will exceed the system-wide offer cap than hubs or load zones, but it is possible that hub or load zone prices could exceed the system-wide offer cap. It is not possible in the nodal system to assign constraint shadow price caps and power balance penalty factor values that achieve the desired reliability and efficiency objectives and ensure that all LMPs remain within the bounds of the system-wide offer caps under all circumstances.[[11]](#footnote-11)

Thus, the rule should not state that the energy price will never exceed the LCAP once triggered or else risk significantly expanding the scope and impact of this rulemaking. TCPA believes that, if the Commission decides to retain the LCAP with the intent of managing general wholesale price levels during periods of extreme scarcity, then it may do so effectively by limiting *offers* without causing the additional effort implied by expanding the LCAP’s applicability to all wholesale energy prices.

Fourth, the Commission should consider increasing the LCAP, if it is retained, to a value that would continue to send a scarcity pricing signal in the event of scarcity. TCPA suggests $4,500/MWh as an alternative. That level would represent only a 50% reduction from the HCAP (rather than the current, nearly 80% reduction), which could achieve the original goal of the LCAP mechanism to balance the need to send a sufficient scarcity signal to promote investment in resources, while also protecting unhedged load from sustained high prices.

Fifth, the rule should clarify that the Independent Market Monitor’s role in reviewing the effectiveness of the scarcity pricing parameters and LCAP mechanism is to determine whether they are working to promote resource adequacy.

Sixth, the rule should define VOLL in this subsection, as it is one of the primary inputs to the ORDC and thus is a key scarcity pricing parameter.

Finally, the rule should include the following minor stylistic changes.

* As explained in Section II.B below and consistent with TCPA’s recommendation for the title of the rule, the Commission should consider re-styling this subsection from “Scarcity pricing mechanism” to “Scarcity pricing parameters” to more accurately describe the contents of the subsection.
* The subsection should remain as subsection (f), if the Commission agrees with TCPA to retain existing subsection (f) requiring certain ERCOT reports.

TCPA provides a redline to subsection (g) below to reflect the above alternative recommendations (i.e., in the event the Commission decides to retain the LCAP).[[12]](#footnote-12)

(~~f~~g) **~~Scarcity pricing mechanism (SPM)~~ Scarcity pricing parameters.** ERCOT will administer the ~~SPM~~ scarcity pricing parameters. The ~~SPM~~ scarcity pricing parameters will operate as follows:

(1) The ~~SPM~~ scarcity pricing parameters will operate on an annual calendar year basis.

(2) For each day, the peaking operating cost (POC) will be 10 times the natural gas price index value determined by ERCOT. The POC is calculated in dollars per megawatt-hour (MWh).

(3) For the purpose of this section, the real-time energy price (RTEP) shall be measured as an average system-wide price as determined by ERCOT.

(4) In the annual resource adequacy cycle, the peaker net margin will be calculated as: ∑((RTEP – POC) \* (number of minutes in a settlement interval / 60 minutes per hour)) for each settlement interval when RTEP – POC >0.

(5) Each day, ERCOT will post at a publicly accessible location on its website the updated value of the peaker net margin, in dollars per megawatt (MW).

(6) The system-wide offer caps (SWOCs) and Value of Lost Load (VOLL) will be as follows:

(A) The low system-wide offer cap (LCAP) will be set on a daily basis at the greater of:

(i) ~~$2,000~~ $4,500 per MWh and ~~$2,000~~ $4,500 per MW per hour; or

(ii) 50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour.

(B) The high system-wide offer cap (HCAP) will be $9,000 per MWh and $9,000 per MW per hour.

(C) The ~~system-wide offer cap~~ SWOC and VOLL will be set equal to the HCAP at the beginning of each calendar year and maintained at this level as long as the peaker net margin during a calendar year does not exceed a threshold of three times the cost of new entry of new generation plants.

(D) If the peaker net margin exceeds the threshold established in subparagraph (C) of this paragraph during a calendar year, the ~~system-wide offer cap~~ SWOC and VOLL will be set to the LCAP for the remainder of that calendar year. In this event, ERCOT will ~~not apply~~ utilize these inputs for any administrative pricing mechanism, such as the operating reserve demand curve or the reliability deployment price adder, for the remainder of that calendar year. ~~Energy prices will not exceed the LCAP for the remainder of that calendar year.~~

(E) The Independent Market Monitor, as part of its responsibilities under Public Utility Regulatory Act §39.1515(h), may conduct an annual review of the effectiveness of the ~~SPM~~ scarcity pricing parameters at incentivizing an appropriate level of resource adequacy.

B. Commission’s proposed rule style change from “Resource Adequacy” to “Requirements and the Scarcity Pricing Mechanism”

As an initial matter, the proposed title “Scarcity Pricing Mechanism” is a bit of a misnomer for a rule that defines a trigger for reducing the SWOC to the LCAP and thus places a limit on scarcity pricing rather than creates a mechanism for scarcity pricing to occur. The Commission should consider a more descriptive titling, such as “Scarcity Pricing Parameters.” The latter would be especially appropriate if the Commission implements TCPA’s suggestion to define VOLL in the rule, since VOLL is one of the primary inputs to the ORDC, which is more accurately described as the scarcity pricing mechanism for the ERCOT market.

C. Commission’s proposed deletion of current subsection (f)

TCPA appreciates the intent of streamlining the rule and current subsection (f) in particular, but TCPA believes a whole-cloth deletion of current subsection (f) is an over-correction. The data that the rule requires ERCOT to publish in that subsection includes information that is critical to supporting transparency of the ERCOT wholesale electricity market. Market participants use that information to calibrate their market models, evaluate proposed market design changes, and most importantly, quickly identify and support policy discussions to address market issues when they arise. Accordingly, TCPA recommends retaining the current subsection (f) while streamlining to eliminate outdated references and making other minor clean-ups; should the Commission adopt this suggestion then the definition of “event trigger” in subsection (b) of the existing rule also should be retained. In addition, as noted above under the response to the preamble question, if the Commission accepts TCPA’s suggestion to strike the LCAP, TCPA recommends moving the requirement for ERCOT to report the PNM on a daily basis to subsection (f), as reflected below; otherwise, if the Commission retains the LCAP, then there is no need to add the proposed subsection (1) shown below (but TCPA still urges the other changes shown regardless of the Commission’s LCAP decision). [[13]](#footnote-13)

(f) **Publication of resource and load information in ERCOT markets.** To ~~increase~~ support the transparency of the ERCOT-administered markets, ERCOT ~~shall~~ will post at a publicly accessible location on its website~~, beginning no later than October 1, 2006,~~ the information required pursuant to this subsection~~, unless a different date is specified by a paragraph of this subsection~~.

(1) Each day, ERCOT will post the updated value of the peaker net margin for the current calendar year, in dollars per megawatt (MW), which will be calculated as follows:

(A) The peaking operating cost (POC) will be 10 times the natural gas price index value determined by ERCOT. The POC is calculated in dollars per megawatt-hour (MWh).

(B) For the purpose of this section, the real-time energy price (RTEP) shall be measured as an average system-wide price as determined by ERCOT.

(C) The peaker net margin will be calculated as: ∑((RTEP – POC) \* (number of minutes in a settlement interval / 60 minutes per hour)) for each settlement interval when RTEP – POC >0.

(2) The following information in aggregated form, for each settlement interval and for each area where available, ~~shall~~ will be posted two calendar days after the day for which the information is accumulated.

(A) Quantities and prices of offers for energy and each type of ancillary capacity service, in the form of supply curves.

(B) Self-arranged energy and ancillary capacity services, for each type of service.

(C) Actual resource output.

(D) Load and resource output for all entities that dynamically schedule their resources.

(E) ~~During the operation of the market under a zonal market design, scheduled load and actual load. During the operation of the market under a nodal market design, firm~~ Firm scheduled load, scheduled load with “up to” limits on congestion charges, and actual load.

(~~2~~F) ~~During the operation of the market under a nodal market design, the following day-ahead market information in aggregate form shall be posted two calendar days after the day for which the information is accumulated: load~~ Load bids, including virtual loads, in the form of day-ahead bid curves, and cleared load.

(3) The following information in entity-specific form, for each settlement interval, ~~shall~~ will be posted as specified ~~in subparagraphs (A) - (E) of this paragraph~~ below.

~~(A) During the operation of the market under a zonal market design:~~

~~(i) Portfolio offer curves for balancing energy and for each type of ancillary service, for each area where available, shall be posted 60 days after the day for which the information is accumulated beginning September 1, 2007, except that, for the highest-priced offer selected or dispatched by ERCOT for each interval after January 12, 2007, ERCOT shall post the offer price and the name of the entity submitting the offer 48 hours after the day for which the information is accumulated. In the event of interzonal congestion, ERCOT shall post, separately for each zone, the offer price and the name of the entity submitting the highest-priced offer selected or dispatched.~~

~~(ii) If the market clearing price for energy (MCPE) or the market clearing price for capacity (MCPC) exceeds the event trigger during any interval, the portion of every market participant’s price-quantity offer pair for balancing energy service and each other ancillary service that is at or above the event trigger for that service and that interval shall be posted seven (7) days after the day for which the offer is submitted. ERCOT shall implement the requirements of this clause by September 1, 2007.~~

~~(iii) Other offer-specific information for each type of service and for each area where available shall be posted 90 days after the day for which the information is accumulated beginning March 1, 2007. Effective March 1, 2008, this information shall be posted 60 days after the day the information was accumulated. The information subject to this disclosure requirement is as follows:~~

~~(I) final energy schedules for each QSE;~~

~~(II) final ancillary services schedules for each QSE;~~

~~(III) resource plans for each QSE representing a resource;~~

~~(IV) actual output from each resource; and~~

~~(V) all dispatch instructions from ERCOT for balancing energy and ancillary services.~~

~~(iv) The information posted shall include the names of the resources in the portfolio that were committed, the name of the entity submitting the information, the name of the entity controlling each resource in the portfolio.~~

~~(B) Two months after the start of operation of the market under a nodal market design:~~

(~~i~~A) Offer curves (prices and quantities) for each type of ancillary service and for energy at each settlement point in the real time market, ~~shall~~ will be posted 60 days after the day for which the information is accumulated except that, for the highest-priced offer selected or dispatched for each interval on an ERCOT-wide basis, ERCOT ~~shall~~ will post the offer price and the name of the entity submitting the offer 48 hours after the day for which the information is accumulated.

(~~ii~~B) If the market clearing price for energy (MCPE) or the market clearing price for capacity (MCPC) exceeds the event trigger during any interval, the portion of every market participant’s price-quantity offer pairs for balancing energy service and each other ancillary service that is at or above the event trigger for that service and that interval ~~shall~~ will be posted seven (7) days after the day for which the offer is submitted.

(~~iii~~C) Other resource-specific information, as well as self-arranged energy and ancillary capacity services, and actual resource output, for each type of service and for each resource at each settlement point ~~shall~~ will be posted 60 days after the day for which the information is accumulated.

(~~iv~~D) The posted information ~~shall~~ will be linked to the name of the resource (or identified as a virtual offer), the name of the entity submitting the information, and the name of the entity controlling the resource. If there are multiple offers for the resource, ERCOT ~~shall~~ will post the specified information for each offer for the resource, including the name of the entity submitting the offer and the name of the entity controlling the resource.

(~~C~~E) The load and generation resource output for each zone, for each entity that dynamically schedules its resources, ~~shall be posted 90 days after the day for which the information is accumulated beginning March 1, 2007. Effective March 1, 2008, the information required by this subparagraph shall~~ will be posted 60 days after the day for which the information is accumulated.

(~~D~~F) ERCOT ~~shall~~ will use §25.502(d) of this title (relating to Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas) as a basis for determining the control of a resource and ~~shall~~ will include this information in its market operations data system.

(~~E~~G) ~~After the start of operation of the market under a nodal market design,~~ ERCOT ~~shall~~ will ~~begin posting~~ post transmission flows, voltages, transformer flows, voltages and tap positions (i.e., State Estimator data) 60 days after the day for which the data were accumulated or other time interval as established in clause (ii) of this subparagraph. The data released ~~shall~~ will be made available simultaneously to all market participants.

(i) Notwithstanding ~~the~~ any other provisions of this ~~subparagraph and the provisions of subparagraph (B) of this paragraph~~ subsection, ERCOT, in its sole discretion, ~~shall~~ will release relevant State Estimator data earlier than 60 days after the day for which the information is accumulated if it determines the release is necessary to provide a complete and timely explanation and analysis of unexpected market operations and results or system events, including but not limited to pricing anomalies, recurring transmission congestion, and system disturbances. ERCOT’s release of data under this clause ~~shall~~  will be limited to intervals associated with the unexpected market or system event as determined by ERCOT. The data released ~~shall~~ will be made available simultaneously to all market participants.

(ii) Notwithstanding ~~the~~ any other provisions of this ~~subparagraph and the other provisions of subparagraph (B) of this paragraph~~ subsection, ERCOT ~~shall, by the start of the nodal market, develop and post a redacted version of State Estimator data, as soon as reasonably practicable after collection of the data, so long as a redacted version excludes information (including but not limited to, voltages, transmission flows and transformer flows) from which resource-specific output levels or offer curves could continually and systematically be derived. Concurrently, in conjunction with the Independent Market Monitor and the commission Staff, ERCOT, through its stakeholder process, shall develop protocols that detail, at a minimum, the methodology, duration, and posting requirement of a redacted version of the State Estimator data. The redacted report methodology developed through the stakeholder process shall be completed within 90 days of the start of the nodal market. If ERCOT is unable to develop a cost effective protocol for the redaction process of the State Estimator data within 90 days of the start of the nodal market, then~~ will release the following information ~~shall be released~~ as soon as reasonably practicable:

(I) Current commercially significant constraints (CSCs) and closely related elements (CREs) line flows that are embodied in the competitive constraint list from the Competitive Constraint Test;

(II) For phase shifting transformers, tap positions and line flows;

(III) Voltages at all buses;

(IV) Line flows on lines that make up interfaces (import, export, flow gate, or stability); and

(V) Line flows on DC ties.

(iii) In no event ~~shall~~ will ERCOT disclose competitively sensitive consumption data.

**III. Conclusion**

TCPA appreciates the Commission’s consideration of its comments and requests that the Commission:

* Eliminate the LCAP, or, alternatively, (i) increase the LCAP to $4,500/MWh, (ii) if the LCAP is triggered, reset the VOLL to the LCAP for purposes of administrative pricing mechanisms like the ORDC and RDPA, and (iii) refrain from stating that prices will never exceed the LCAP if it is triggered.
* Retain but streamline and update the reporting requirements in existing subsection (f) of the rule, and if the LCAP is eliminated, add a requirement to that subsection for ERCOT to report on the PNM each day.
* Make the other stylistic revisions suggested above, including a restyling of the proposed rule and relevant sections to use the more descriptive “Scarcity Pricing Parameters” instead of “Scarcity Pricing Mechanism.”

Dated: February 11, 2019

Respectfully submitted,

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Michele Gregg

Executive Director

Texas Competitive Power Advocates (TCPA)

(512) 653-7447

[michele@competitivepower.org](mailto:michele@competitivepower.org)

1. It took several years and multiple rounds of comments at the Commission (with over 600 filings in three years) from the time that a former Commission initially expressed concern with resource adequacy in ERCOT leading up to the summer of 2011 to that Commission’s ultimate adoption of the current scarcity pricing mechanism in ERCOT, i.e., the Operating Reserve Demand Curve (ORDC); it then took another nine months or so before ERCOT stakeholders adopted and ERCOT implemented the ORDC. *See generally* Project No. 37897 (opened in May 2011, but prompted by an initial request in December 2010 by that Commission to ERCOT to study the impact of impending environmental regulations on resource adequacy in ERCOT); Project No. 40000 (opened in July 2012 and ultimately resulted in the Commission directing ERCOT to develop the ORDC at the September 12, 2013 open meeting); NPRR 568 (adopted in November 2013 and implemented in time for summer 2014). The effectiveness of the scarcity pricing in ERCOT remains the subject of debate today, nearly five years after its implementation. [↑](#footnote-ref-1)
2. The latest Report on the Capacity, Demand and Reserves (CDR) in the ERCOT Region projects an 8.1% reserve margin for summer 2019. *See* ERCOT CDR, 2019 – 2028 (Dec. 4, 2018), *available at*: <http://www.ercot.com/content/wcm/lists/167023/CapacityDemandandReservesReport-Dec2018.pdf>. [↑](#footnote-ref-2)
3. *See Rulemaking on Wholesale Electric Market Power and Resource Adequacy in the ERCOT Power Region*, Project No. 31972, Order Adopting Amendment to §25.502, New §25.504, and New §25.505 as Approved at the August 10, 2006 Open Meeting (Order), at 73 (Aug. 24, 2006). [↑](#footnote-ref-3)
4. The PNM/LCAP threshold was $175,000/MW-year from 2006 through 2011; was increased to $300,000/MW-year in 2012 and 2013; and is $315,000/MW-year today. Project No. 31972, Order (Aug. 24, 2006); *PUC Rulemaking to Amend PUC Subst. R. 25.505, Relating to Resource Adequacy in the Electric Reliability Council of Texas Power Region*, Project No. 40268, Order Adopting Amendments to § 25.505 as Approved at the October 25, 2012 Open Meeting (Oct. 30, 2012); ERCOT Nodal Protocol § 4.4.11(1)(c). [↑](#footnote-ref-4)
5. *Compare* Potomac Economics, 2017 State of the Market Report for the ERCOT Electricity Market, at 115 (Figure 84) (May 2018) (showing cumulative peaker net margin data each year from 2006 through 2017), *available at*: <https://www.potomaceconomics.com/wp-content/uploads/2018/05/2017-State-of-the-Market-Report.pdf>, *with* Potomac Economics, Item 5: Independent Market Monitor (IMM) Report to the ERCOT Board at the Dec. 11, 2018 Meeting, at Slide 6 (showing peaker net margin data for 2018 through Nov. 20, 2018), *available at*: <http://www.ercot.com/content/wcm/key_documents_lists/137978/5_Independent_Market_Monitor__IMM__Report.pdf>. [↑](#footnote-ref-5)
6. The redline below “accepts” the proposed changes from the published rule and then shows TCPA’s proposed changes with a single underline for additions and a single strikethrough for deletions. [↑](#footnote-ref-6)
7. This was the concern initially stated in Staff’s memo regarding the proposal for publication. Memo from Commission Staff to Commissioners (Dec. 13, 2018) (“Under the current rule, if the peaker net margin threshold is reached, the Day-Ahead Market would be constrained to the LCAP, but the Real-Time Market would not because the ORDC would be in effect in the Real-Time Market. This could cause unusual divergence between the Day-Ahead Market and the Real-Time Market, as generators would be incentivized to offer only in the Real-Time Market (where the ORDC would apply) to avoid being limited by the LCAP in the Day-Ahead Market.”). [↑](#footnote-ref-7)
8. *See* ERCOT Nodal Protocol § 6.5.7.3.1. Under this section, the reliability deployments that trigger the RDPA include non-scarcity deployments like Reliability Unit Commitment and Reliability Must Run service, which typically would be used to correct for temporary supply/demand imbalances or congestion, but also include Emergency Response Service, emergency imports, and other deployments related to scarcity conditions. [↑](#footnote-ref-8)
9. *See* ERCOT Nodal Protocols § 2 (defining “shadow price” as “[a] price for a commodity that measures the marginal value of this commodity; that is, the rate at which system costs could be decreased or increased by slightly increasing or decreasing, respectively, the amount of the commodity being made available”); *see generally* ERCOT Methodology for Setting Maximum Shadow Prices for Network and Power Balance Constraints (Jun. 20, 2018), *available at*: <http://www.ercot.com/mktrules/obd/obdlist>. [↑](#footnote-ref-9)
10. The caps are: $9,251/MW for a base case/voltage violation; $4,500/MW for a 345 kV N-1 constraint violation; $3,500/MW for a 138 kV N-1 constraint violation; and $2,800/MW for a 69 kV N-1 constraint violation. In addition, constraints that are irresolvable by the Security Constrained Economic Dispatch are subject to a different formula for setting the cap, which accounts for the LCAP contingency. ERCOT Methodology for Setting Maximum Shadow Prices for Network and Power Balance Constraints, § 3.6 *et seq.* (Jun. 20, 2018). [↑](#footnote-ref-10)
11. *Id.* at 14 (emphasis in original). [↑](#footnote-ref-11)
12. As with the earlier redline of subsection (g), the above redline shows TCPA’s proposed changes to the proposed version of this subsection. [↑](#footnote-ref-12)
13. Since the proposed rule would strike this subsection altogether, TCPA has redlined this subsection against the current rule language, rather than against the proposed rule language. [↑](#footnote-ref-13)