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Texas regulators get earful of opinions about scarcity power pricing proposal

By [Christine Corder](#)

If recent comments are anything to go by, the Public Utility Commission of Texas in an upcoming workshop will no doubt be getting an earful from stakeholders about the state's ultimate resource adequacy goals and whether a real-time scarcity pricing proposal aimed at encouraging generation development is the right way to go.

The focus of the PUCT's June 27 [workshop](#) is a back-cast study done by the [Electric Reliability Council of Texas Inc.](#) that [analyzed](#) energy-weighted average price increases in 2011 and 2012 under a so-called "Interim Solution B+" proposal developed by the grid operator and William Hogan, a professor at Harvard University's Kennedy School of Government. In a slew of comments filed May 31 on that work, some stakeholders took aim at the details, while others urged the regulators to consider alternatives to the interim solution. (Project No. 40000)

Having [worked](#) with Hogan, [GDF Suez SA](#) affiliate GDF SUEZ Energy North America in its [comments](#) backed the Interim Solution B+ proposal with its focus on an operating reserve demand curve, or ORDC, while underscoring the importance of improving scarcity and energy pricing as quickly as possible to spur new generation development.

"Implementing Solution B+ can achieve significant benefits in the pricing of operating reserves and will make a meaningful and positive contribution to the 'missing money' issue in ERCOT. We believe if the ORDC is implemented, there is a strong likelihood that the substantial effort needed to fully co-optimize energy and capacity in real-time may not be needed," GDF Suez said. "However, if the commission decides that further enhancements are needed in the market to augment that approach, then a cost-benefit analysis will be needed to determine implementation costs and the incremental benefits of transitioning to the full co-optimization of energy and capacity in real-time."

GDF Suez also recommended that the proposal be changed as to bidding floors for ancillary services. "If Solution B+ is implemented as currently proposed without floor prices, the problem of price reversals, which has been prevalent in this market for some time, will continue," it said in advocating for floors. "As proposed, the simultaneous deployment of substantial amount of Non-Spinning and Responsive Reserve [NSRS] MWs to maintain reliability will result in significant price reversals that dramatically reduce or eliminate essential scarcity price signals."

[Macquarie Energy LLC](#) in its [comments](#) also said the proposal does not effectively resolve NSRS issues. "Where logic would dictate that the ORDC adder would increase as NSRS is deployed to resolve the price suppression caused by out of merit deployment and reflect declining stores of ancillary services, deploying offline NSRS adds reserves to the ORDC calculation reducing the ORDC adder [the product of the Value of Lost Load and the Loss of Load Probability]," Macquarie Energy said. "Online NSRS is also price distorting. Because units reserving capacity to provide NSRS are not fully loaded, NSRS may create excess online unit commitment. Units can shift from offline to online NSRS in response to prices, which further distorts prices. Finally, NSRS units that are brought online but not dispatched above their Low Sustainable Limit distort the market by injecting unpriced energy into the grid."

In its [comments](#), ERCOT's independent market monitor, Potomac Economics, did not support bidding floors for ancillary services. "Energy deployed from ancillary service capacity will not result in backsliding on the ORDC and therefore will not result in a price reversal on the ORDC," Potomac Economics said. "Additionally, offer floors are inconsistent with and would defeat the purpose of the implementation of real-time co-optimization which may be considered for future implementation and for which the ORDC B+ solution has been represented to be a step toward."

Potomac Economics also cautioned that ERCOT's back-cast results are "significantly overstated" because they do not capture behavioral market changes and assume no changes in prices seen in 2011 and 2012. "[T]he assumption in the ERCOT analysis assumes that the ORDC always represents an 'adder' to the unchanged historic system lambda is incorrect and represents an overstatement of the results," it said, running an example showing the change in the base-point weighted average price for 2011 would be about 30% lower than the grid operator's results.

As the PUCT works on scarcity pricing, ERCOT is [expecting](#) Texas to see a tight power supply situation this summer, with reserves shrinking further in the coming years as generation development fails to keep pace with power demand growing from economic development. Meanwhile, ERCOT on June 1 raised the high systemwide offer cap to \$5,000/MWh for energy and ancillary services. ERCOT July products have been [trading](#) in the high \$60s across the board, with ERCOT West in the lead and ERCOT South pulling up the rear at just \$2 below West.

Questioning long-term direction

Representing [Calpine Corp.](#), [Exelon Corp.](#) subsidiary [Exelon Generation Co. LLC](#), and [NextEra Energy Inc.](#) subsidiary [NextEra Energy Resources LLC](#), the ERCOT Reliability Advocates in [comments](#) to the PUCT urged the regulators to see the bigger picture since the back-cast study shows that the proposal could but not necessarily will have a positive impact on revenues.

"[O]ur primary concern is that ORDC B+ is being considered as a suitable mechanism to ensure long-term resource adequacy — a purpose it is not designed to accomplish. Moreover, focusing and dedicating ERCOT resources to an ORDC-type solution is a potential impediment to timely implementing a market design that will ensure long-term resource adequacy," the group said. "As a result the Advocates renew their call on the commission to set a clear direction on the overall resource adequacy objective, including whether the reserve margin is a target or a requirement."

NRG Energy Inc. in its [comments](#) also looked at the issue of generation encouragement in a broad perspective. "Resource adequacy requires the preservation and addition of supply when reserve margins fall below acceptable levels. The ability to economically operate and construct generation capacity in ERCOT is dependent on the long-term bilateral market, which is informed by the energy-only market administered by ERCOT," NRG said. "Reforms to the energy-only market such as real-time co-optimization or Interim Solution B+ will not solve the resource adequacy challenges because these challenges lie in the long-term bilateral market."

Consequently, NRG urged the PUCT to adopt a mandatory reserve margin and a centralized forward capacity market that will provide "a market structure which best achieves a mandatory reserve margin by addressing the long-term deficiencies of ERCOT's energy-only market."

Coming from a customer perspective, the Sierra Club and Public Citizen in their [comments](#) questioned whether the Interim Solution B+ proposal is even necessary, noting that generation investment is occurring in Texas. Looking at the back-cast study, they were concerned about the proposal's potential for high and volatile prices and pushed instead for discussion of a one-hour market as a relatively easier design that would provide some of the same benefits of the proposal.

"[W]e think this [Interim B+] option will not necessarily lead to additional generation and it will also force ERCOT to be consistently settling those who miscalculate in the day-ahead market compared to the real-time market," the groups said. "In essence, we are supportive of moving toward co-optimization [of ancillary and energy markets] now, rather than implementing a short-term solution that may not have any real result in terms of improving reliability. We instead favor spending the extra time — and, yes, money — to move toward full co-optimization. ... It is better to get these market reforms right than get them done fast."

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