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Commissioner

Brian H. Lloyd  
Executive Director



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Governor

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*Public Utility Commission of Texas*

P-40000

May 10, 2012

The Honorable Wendy R. Davis  
Texas Senate  
Post Office Box 12068  
Austin, TX 78711

Re: Correspondence dated May 4, 2012

Dear Senator Davis:

Thank you for your correspondence regarding the two proceedings currently before the Commission. In your correspondence you requested that the Commission evaluate the economic impact of changing the price caps within ERCOT.

So that all parties are aware of your comments and the commission may consider your comments when adopting a final rule in these projects, I have taken the liberty of filing your correspondence in Project No. ~~37897~~, relating to resource and reserve adequacy and shortage pricing, and Project No. 40268, relating to the scarcity pricing mechanism.

If your office would like a briefing regarding these projects specifically or generation adequacy issues more generally, please don't hesitate to let me know.

Sincerely,

Brian H. Lloyd  
Executive Director

cc: Commissioners

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# The Senate of The State of Texas

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SENATOR WENDY R DAVIS  
District 10

May 4, 2012

Public Utility Commission of Texas  
1701 N. Congress  
P.O. Box 13326  
Austin, TX 78711-3326

Commissioners:

When it comes to electricity, both reliability and cost are important. Nobody wants rolling blackouts. Neither do we want higher electric bills. In both instances, Texas consumers and businesses suffer. I am writing today to urge you to keep the balance between electricity prices and reliability in mind as you consider market design changes included in Projects 37897 and 40268. I have concerns that some of the potential changes will lead to higher prices for the constituents that I represent, but with no clear payoff in terms of reliability.

I understand that the task before you is not easy. ERCOT endured a challenging summer in 2011, and it would be everyone's preference to avoid similar problems in 2012. But some of the quick changes now under consideration — including a proposal to increase the offer cap for energy to \$4,500 in August — cannot possibly lead to new generation construction in time for this year's peak summer months. It may do other things, such as undermining existing REP contracts. But it will not bring more generation to Texas before this summer.

As you know, the offer cap in this market works like a speed limit. We enforce it to protect the competitive market against spiraling high prices, especially during times of scarcity. When prices get out of hand, our market can suffer. Before you now are proposals to increase the offer cap by 50 percent by August — and then perhaps triple it or increase it even more in later years. As the Independent Market Monitor has noted in his reports, there is an existing correlation between the energy spot market and the overall wholesale energy market. I am concerned, therefore, that these changes will eventually lead to higher prices for the end-use customer.

That is why I am urging you to deliberate carefully, to consider your long-term options, and — most importantly — to refrain from taking dramatic steps without first considering the cost to Texas homes and businesses. I am unaware of any analysis that has been conducted that reveals how these changes will impact home electricity bills. I believe this is a crucial first step and urge you to conduct such an analysis before moving forward.

Sincerely,

A handwritten signature in black ink that reads "Wendy R. Davis".

Wendy R Davis  
Texas Senate - District 10

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