



Control Number: 40000



Item Number: 131

Addendum StartPage: 0

40000

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PROCEEDING RELATED TO  
RESOURCE AND RESERVE  
ADEQUACY AND SHORTAGE  
PRICING

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BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS

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PUBLIC UTILITY COMMISSION  
FILING CLERK

**COMMENTS OF TEXAS COMPETITIVE POWER ADVOCATES ON PROPOSED  
NEW RULE, §25.508, RELATING TO HIGH SYSTEM-WIDE OFFER CAP IN THE  
ELECTRIC RELIABILITY COUNCIL OF TEXAS ("ERCOT") POWER REGION**

Texas Competitive Power Advocates ("TCPA")<sup>1</sup> appreciates the opportunity to file the following comments in the above-referenced proceeding on proposed new Substantive Rule 25.508. The proposed new rule would increase the high system-wide offer cap ("SWOC") for energy and capacity to \$4,500, beginning on August 1, 2012, and ending on the effective date of any subsequent amendments to Substantive Rule 25.505 relating to the high SWOC.

TCPA supports adoption of the new rule, both as to raising the high SWOC to \$4,500 and the proposed date of implementation. These actions, intended to help ensure adequate on-line resources this summer, would be a necessary step in the right direction as the Commission continues to address longer-term resource adequacy issues in the ERCOT wholesale markets. It is important that the Commission and the stakeholders continue to consider, develop and test additional creative solutions for sustainable long term resource adequacy .

While it is true that these short-term actions alone may not immediately produce announcements of new generating capacity in ERCOT, they will demonstrate a commitment by the Commission to ensure resource adequacy for the future. It is imperative that ERCOT have sufficient generating capacity on the grid to maintain a reliable supply of electricity to the

<sup>1</sup> The comments contained herein represent the position of TCPA as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on TCPA, including a list of its members, please visit our website at [www.competitivepower.org](http://www.competitivepower.org).

residential, commercial and industrial customers who depend on it. Such sufficiency of resources, in turn, in the competitive ERCOT market, is dependent on price formation and resulting revenue streams adequate to allow generation investors to recover their capital costs, operating expenses and a competitive return on investment over time. TCPA's member companies have invested billions of dollars developing, constructing, operating and maintaining generating capacity in ERCOT, but, as pointed out by the Independent Market Monitor in every State of the Market Report, revenues have been inadequate to support new entry into this market by any kind of technology for the last several years. If ERCOT's energy-only market begins to show this summer that it can produce scarcity prices that, over time, can result in revenues adequate for recovery of investment dollars and operating expenses, that will be an important—and critical—signal to investors, who will be basing their investment decisions on the experience, not the promise, of adequate revenues.

TCPA further supports increasing the high SWOC beginning this August, not only because August is typically a high-demand month and legitimate scarcity prices can help generators recover their increased operating expenses and keep their machines running at full capacity, but also because scarcity situations have often arisen in the fall and spring. In fact, major scarcity events, causing state-wide outages, have typically occurred not in the summer but in the shoulder months, when supply is short due to planned maintenance and extreme temperatures occur unexpectedly. Increasing the high SWOC in August and keeping it in place through the fall and into the spring of 2013 will help ensure that prices continue to signal scarcity when scarcity occurs. Additionally, the sooner that necessary changes to market signals are implemented, the sooner markets—and investors—can react. If ERCOT is to keep the lights on in the 2014-2015 time frame, market prices must begin to convince generation investors now that

this is a market where they can expect to recover their investment over time. Appropriate signals and regulatory certainty must be present to provide incentives for investors to commit capital to enable new capacity to be developed and constructed to meet the future needs of ERCOT customers. In light of the fact that it takes two to three years for most generation technologies to be built, time is of the essence if the ERCOT market is to begin aligning market outcomes with investor expectations.

Respectfully submitted,

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