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Item Number: 139

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**PROJECT NO. 37897**

**PROCEEDING RELATING TO §  
RESOURCE AND RESERVE ADEQUACY §  
AND SHORTAGE PRICING §**

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF TEXAS**

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REGISTRATION CLERK  
PUBLIC UTILITY COMMISSION

**COMMENTS OF CPS ENERGY**

CPS Energy<sup>1</sup> offers comments in the above-styled docket responding to the question posed by the Public Utility Commission (Commission) and the proposed addition of Substantive Rule §25.508.

**I. Introduction**

CPS Energy supports increasing the High System Wide Offer Cap (SWOC) to \$4,500. The ERCOT energy-only market with a \$3,000 cap does not appear to provide the economic incentives required to ensure resource adequacy. Increasing the SWOC, coupled with other modifications directed by the Commission and implemented by the Electric Reliability Council of Texas (ERCOT), improves the mechanics of the ERCOT market. The remaining issue is the timing of the move to \$4,500. The Commission is concerned – rightly – about the impact on contracts between retailers and end-use customers. However, CPS Energy does not participate in that side of the market, and thus, there are parties that can give the Commission better input on that dynamic.

**II. Commission Question**

The Commission requested an answer to the following question:

<sup>1</sup> CPS Energy™ is the trade name of City Public Service of San Antonio, acting by and through the City Public Service Board.

*The direct effect of the new section will be to allow resources to offer services in the ERCOT ancillary service auctions at higher prices. In turn, this direct effect is expected to increase revenues to resources, which will be paid for by LSEs, including retail electric providers. Will the new section implicate the provisions of §25.475 that allow retail electric providers to change rates in fixed-rate products for retail customers due to "changes resulting from federal, state or local laws that impose new or modified fees or costs on a REP that are beyond the REP's control?"*

CPS Energy is not a retail electric provider (REP), and while it is a load serving entity (LSE), the contracts under which it operates are unlikely to be impacted by Commission action in this docket. However, the Commission expresses a reasonable concern that other contracts governing the market will be impacted. The dynamics of the contracts in question can be described in the most informed manner by other parties; therefore, CPS Energy defers to their comments on this issue. The Commission should have sufficient information after all filings are made in this docket to make the best public policy decision. CPS Energy would recommend the \$4,500 SWOC be implemented as soon as practicable while accounting for all market dynamics.

### **III. An Increase in the High SWOC is Needed.**

Since 2003, the Peaker Net Margin (PNM) has been calculated above \$90,000 per MW only twice – in 2008 and 2011.<sup>2</sup> While the move to a nodal market was a significant change (and makes comparing the years difficult), having only two years of nine where the market provided the low-end of the annual need for revenue for a peaking unit does not indicate a successful market design. Changes are needed to

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<sup>2</sup> Potomac Economics, "2007 State of the Market Report for the ERCOT Wholesale Electricity Markets", p. 47  
[http://www.potomaceconomics.com/uploads/ercot\\_reports/2010\\_ERCOT\\_SOM\\_REPORT.pdf](http://www.potomaceconomics.com/uploads/ercot_reports/2010_ERCOT_SOM_REPORT.pdf)  
and "2010 State of the Market Report for the ERCOT Wholesale Electricity Markets", p. 48  
[http://www.potomaceconomics.com/uploads/ercot\\_reports/2010\\_ERCOT\\_SOM\\_REPORT.pdf](http://www.potomaceconomics.com/uploads/ercot_reports/2010_ERCOT_SOM_REPORT.pdf)  
2011 data comes from "ERCOT's Revised Back Cast Analysis" Revised May 11, 2012, Bates Stamp p. 5.

increase the likelihood of the market providing enough revenue to attract new construction and maintain existing generation.

The Commission has guided the market through many needed changes already. Measures have been taken to guarantee that pricing reflects market conditions. In addition, market design changes have been implemented that prevent units providing ancillary services from interfering with units operating only in the energy market. Nevertheless, the "ERCOT Back Cast Analysis" shows that if 2011 were normalized for weather and SWOC remained at \$3,000, the PNM would only be \$69,000. This amount is insufficient relative to the benchmark of \$90,000 that was referenced earlier.<sup>3</sup> Only by allowing all mechanisms, so far adopted by the Commission to be combined with a SWOC of \$4,500, does the analysis show a weather-normalized 2011 reaching a PNM of \$90,000. Historic analysis coupled with ERCOT's back cast demonstrates that the present SWOC is inadequate; therefore, a change is needed if the existing market design is going to be successful.

The only outstanding question is timing. CPS Energy defers to the Commission and other market participants as to when would be best time from a contracting perspective to implement a higher SWOC. However, the move should be made as quickly as practical.

#### **IV. Increasing the SWOC has its Drawbacks**

Disadvantages exist to raising the SWOC. The nature of both the Day Ahead (DA) market and longer term contracts means generation units take on an

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<sup>3</sup> "ERCOT's Revised Back Cast Analysis" Revised May 11, 2012, Bates Stamp p. 5.

obligation. In the event a unit with this obligation cannot perform, it must buy power from the market to replace the power it committed to provide. In high-priced intervals such an outcome can be very costly. For example, the revenue lost by generation resources during the February 2, 2011 was substantial; however, if a similar event occurred with a SWOC of \$4,500, losses could be fifty percent greater. The Commission must keep this in mind when contemplating the level of the cap and the timing.

Still, CPS Energy believes increasing the SWOC to \$4,500 is appropriate. This change improves the mechanics of the ERCOT energy-only resource adequacy mechanism. Additionally, it enforces the incentive to maintain units and make them available to the market at the time they are needed most. This higher SWOC also moves closer to the value of lost load, making load curtailment and reduction programs more attractive and economically viable. In sum, the benefits outweigh the drawbacks.

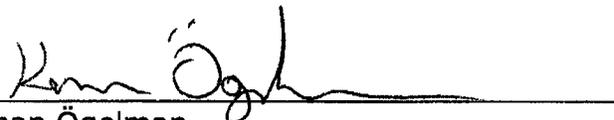
## **V. Conclusion**

CPS Energy supports the change proposed to the high SWOC and the proposed timing. However, other parties have a better experience surrounding the contracting consequences to implementing the change on August 1, 2012. CPS Energy is confident the Commission will weigh concerns and select the appropriate date to implement a SWOC of \$4,500. While the timing may need to be modified, the evidence supporting increasing the cap is compelling.

May 29, 2012

Respectfully submitted,

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A handwritten signature in black ink, appearing to read "Kenan Ögelman", is written over a horizontal line.

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