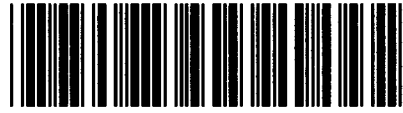




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# OPEN MEETING COVER SHEET

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**MEETING DATE:** April 12, 2012

**DATE DELIVERED:** April 5, 2012

**AGENDA ITEM NO.:** 13

**CAPTION:** Project No. <sup>40000</sup>~~40268~~, PUC Rulemaking to Amend PUC SUBST.R.25.505, Relating To Resource Adequacy In The Electric Reliability Council Of Texas Power Region

**ACTION REQUESTED:** Discussion and possible action

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## *Public Utility Commission of Texas*

Date: April 5, 2012

To: Chairman Donna L. Nelson  
Commissioner Kenneth W. Anderson, Jr.  
Commissioner Rolando Pablos

From: Shawnee Claiborn-Pinto, Competitive Markets Division  
Jason Haas, Legal Division

Subject: April 12, 2012 Open Meeting, Item 13: **Project No. 40268** – *PUC Rulemaking to Amend PUC SUBST. R. 25.505, Relating To Resource Adequacy In The Electric Reliability Council Of Texas Power Region* – Staff's draft Proposal for Publication

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Attached for your review is Staff's draft Proposal for Publication in Project No. 40268, *PUC Rulemaking to Amend PUC SUBST. R. 25.505, Relating To Resource Adequacy In The Electric Reliability Council Of Texas Power Region*. The proposed amendments to P.U.C. SUBST. R. 25.505 increase the high and low system offer caps and the peaker net margin, and also remove outdated portions of the rule. Staff included questions in the preamble consistent with the memos filed in Project No. 37897, relating to resource adequacy and shortage pricing, and the discussion at the March 22, 2012 Open Meeting.

If you have any questions, please contact Shawnee Claiborn-Pinto at 936-7388 or Jason Haas at 936-7295.



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**PROJECT NO. 40268**

**PUC RULEMAKING TO AMEND PUC §  
SUBST. R. 25.505, RELATING TO § PUBLIC UTILITY COMMISSION  
RESOURCE ADEQUACY IN THE §  
ELECTRIC RELIABILITY COUNCIL § OF TEXAS  
OF TEXAS POWER REGION §**

**(STAFF RECOMMENDATION)  
PROPOSAL FOR PUBLICATION OF AMENDMENTS TO §25.505 FOR  
CONSIDERATION AT THE APRIL 12, 2012 OPEN MEETING**

The Public Utility Commission of Texas (commission) proposes amending §25.505, relating to Resource Adequacy in the Electric Reliability Council of Texas Power Region. The proposed amendments will amend 25.505(g), relating to the scarcity pricing mechanism, by increasing the high and low system offer caps and the peaker net margin, and to remove outdated portions of the rule. Project Number 40268 is assigned to this proceeding. These amendments are competition rules subject to judicial review as specified in Public Utility Regulatory Act (PURA) §39.001(e).

Although Texas currently has an adequate and reliable supply of electricity available to meet its projected demands, the Electric Reliability Council of Texas (ERCOT) has projected that capacity reserves will decrease over the next several years. The proposed amendments allow for a structured increase in bid caps applicable in the ERCOT market and other changes to the scarcity pricing mechanism, ensuring that the ERCOT market sends the appropriate price signals to encourage development of generation resources.

Shawnee Claiborn-Pinto, Director of the Wholesale Markets Section, Competitive Markets Division, has determined that for each year of the first five-year period the amendments are in

1 effect, there will be no fiscal implications for state or local government as a result of enforcing or  
2 administering the amendments.

3

4 Ms. Claiborn-Pinto has determined that for each year of the first five years the amendments are  
5 in effect, the public benefit expected as a result of the amendments is greater assurance of  
6 resource adequacy in the ERCOT wholesale electricity market. In an energy-only market, like  
7 ERCOT, the economic incentive to build new capacity comes from scarcity-induced price  
8 signals rather than direct payments that are charged to all load-serving entities (LSEs), as is done  
9 in some other regions. These amendments will ensure that stronger scarcity-induced prices are  
10 sent to the ERCOT market to further incent the development of new generation resources and  
11 help ensure that there is adequate generation in the ERCOT market. The phased-in approach will  
12 give market participants time to adequately prepare for the changes. The construction of  
13 additional generation will also have the benefit of increasing the industrial base of the Texas  
14 economy and will contribute to increased employment and development in areas where new  
15 generation facilities will be located. In addition, stronger scarcity-induced price signals will  
16 provide a greater incentive for loads to voluntarily reduce their demand during times of scarcity.

17

18 Ms. Claiborn-Pinto has determined that for each year of the first five years the amendments are  
19 in effect, there are no probable economic costs to persons required to comply with the  
20 amendments, except that ERCOT may incur small costs to administer the scarcity pricing  
21 mechanism. Ms. Claiborn-Pinto has also determined that the amendments will not have an  
22 adverse economic effect on small businesses or micro-businesses as a result of enforcing the  
23 amendments.

1

2 Ms. Claiborn-Pinto has also determined that for each year of the first five years the amendments  
3 are in effect, there will be no effect on a local economy, and therefore no local employment  
4 impact statement is required under Texas Government Code §2001.022.

5

6 The commission staff will conduct a public hearing on this rulemaking, if requested pursuant to  
7 the Administrative Procedure Act, Texas Government Code §2001.029, beginning at 9:30 on  
8 Friday June 15, 2012 [50 days after publication] at the commission's offices located in the  
9 William B. Travis Building, 1701 North Congress Avenue, Austin, Texas 78701. The request  
10 for a public hearing must be received within 30 days after publication.

11

12 Initial comments on the proposed amendments may be submitted to the Filing Clerk, Public  
13 Utility Commission of Texas, 1701 North Congress Avenue, P.O. Box 13326, Austin, Texas  
14 78711-3326, no later than Friday, June 1, 2012. Reply comments may be submitted no later than  
15 Friday, June 15, 2012. Sixteen copies of comments on the proposed amendments are required to  
16 be filed pursuant to §22.71(c) of this title. Comments should be organized in a manner  
17 consistent with the organization of the amended rule. All comments should refer to Project  
18 Number 40268.

19

20 The commission also requests comments on the following questions:

- 21 1. Should the sequence of changing the high system-wide offer cap (HCAP) increase at a  
22 different rate and over a different period? For example, are any of the following cases

1 preferable to that proposed in the rule? Should the specific year for each increase or the  
2 specific date of June 1 for the increase each year be changed?

	Raise the HCAP to:	Effective before the summer of:
3		
4	Proposed Rule	\$5,000 2013
5		\$7,000 2014
6		\$9,000 2015
7	Case 1	\$4,000 2013
8		\$5,000 2014
9		\$6,000 2015
10	Case 2	\$4,500 2013
11		\$6,000 2014
12		\$7,500 2015
13		

- 14 2. Is the use of the peaker net margin (PNM) method described in the rule the appropriate  
15 mechanism to measure resource adequacy in an energy-only market? If not, what should  
16 replace it? Should the PNM trigger amount be the cost of new entry (CONE) or a  
17 multiple of the CONE as determined by ERCOT? Should the trigger causing the system-  
18 wide offer cap to be reset to the low system offer cap be based on a calendar year or a  
19 rolling 12-month period, or should the use of the mechanism be based on hitting the  
20 trigger for a single year, or for multiple years? Should variability in the weather be taken  
21 into consideration in determining whether the PNM trigger is met?
- 22 3. How long would it take market participants to adjust their financial exposure to the  
23 proposed amendments? Will these changes affect liquidity in the ERCOT market? If so,  
24 how? Will financial counterparties in hedging arrangements continue to be willing to  
25 participate, and if so, at what cost, if the HCAP is increased significantly? Would there  
26 be any difference if changes were made over a shorter or longer period of time?

27  
28 These amendments are proposed under the Public Utility Regulatory Act, Texas Utilities Code  
29 Annotated §14.002 (West 2007 and Supp. 2011) (PURA), which provides the commission with

1 the authority to make and enforce rules reasonably required in the exercise of its powers and  
2 jurisdiction, and specifically, §35.004, which requires that the commission ensure that ancillary  
3 services necessary to facilitate the transmission of electric energy are available at reasonable  
4 prices with terms and conditions that are not unreasonably preferential, prejudicial,  
5 discriminatory, predatory, or anticompetitive, PURA §39.001, which establishes the Legislative  
6 policy to protect the public interest during the transition to and in the establishment of a fully  
7 competitive electric power industry, §39.101, which establishes that customers are entitled to  
8 safe, reliable, and reasonably priced electricity, and gives the commission the authority to adopt  
9 and enforce rules to carry out these provisions; §39.151, which grants the commission oversight  
10 and review authority over independent organizations such as ERCOT.

11

12 Cross Reference to Statutes: PURA §§14.002, 35.004, 39.101, 39.151, and 39.151.



1 **§25.505. Resource Adequacy in the Electric Reliability Council of Texas Power Region.**

2 (a) – (f) (no change)

3 (g) Scarcity pricing mechanism (SPM). ERCOT shall administer the SPM. ~~The SPM shall~~  
4 ~~take effect on January 1, 2007, unless the commission by order changes this date.~~ The  
5 SPM shall operate as follows:

6 (1) The SPM shall operate on an annual resource adequacy cycle, starting on January  
7 1 and ending on December 31 of each year.

8 (2) For each day of the annual resource adequacy cycle, the peaking operating cost  
9 (POC) shall be 10 times the daily Houston Ship Channel gas price index for the  
10 previous business day. The POC is calculated in dollars per megawatt-hour  
11 (MWh).

12 (3) For the purpose of this section, the real-time energy price (RTEP) shall be  
13 measured as the price at an ERCOT-calculated ERCOT-wide hub.

14 (4) In the annual resource adequacy cycle, the peaker net margin (PNM) shall be  
15 calculated as:  $\sum((RTEP - POC) * (\text{number of minutes in a settlement interval} / 60$   
16  $\text{minutes per hour}))$  for each settlement interval when  $RTEP - POC > 0$ .

17 (5) Each day ERCOT shall post at a publicly accessible location on its website the  
18 updated value of the PNM, in dollars per megawatt (MW).

19 (6) The system-wide offer caps shall be as follows:

20 (A) The low system offer cap (LCAP) shall be set on a daily basis at the  
21 higher of:

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

- 1 (ii) 50 times the daily Houston Ship Channel gas price index of the  
2 previous business day, expressed in dollars per MWh and dollars per  
3 MW per hour.
- 4 (B) ~~Beginning June 1, 2013~~~~March 1, 2007,~~ The high system-wide offer cap  
5 (HCAP) shall be:
- 6 (i) ~~Beginning on June 1, 2013, \$5,000~~~~1,500~~ per MWh and ~~\$5,000~~~~1,500~~  
7 per MW per hour.
- 8 (ii)~~(C)~~ ~~Beginning on June 1, 2014,~~~~March 1, 2008,~~ the HCAP shall be  
9 ~~\$7,000~~~~2,250~~ per MWh and ~~\$7,000~~~~2,250~~ per MW per hour.
- 10 (iii)~~(D)~~ ~~Beginning on June 1, 2015,~~~~two months after the opening of the nodal~~  
11 ~~market,~~ the HCAP shall be ~~\$9,000~~~~3,000~~ per MWh and ~~\$9,000~~~~3,000~~  
12 per MW per hour.
- 13 (CE) At the beginning of the annual resource adequacy cycle, the system-wide  
14 offer cap shall be set equal to the HCAP and, except for increases  
15 authorized in this section, maintained at this level as long as the PNM  
16 during an annual resource adequacy cycle is less than or equal to \$262,500  
17 ~~175,000~~ per MW. During an annual resource adequacy cycle, the system-  
18 wide offer cap shall be increased in accordance with the schedule  
19 authorized in this section unless the PNM has been exceeded by that date.  
20 If the PNM exceeds \$262,500 ~~175,000~~ per MW during an annual resource  
21 adequacy schedule, the system-wide offer cap shall be reset at the LCAP  
22 for the remainder of that annual resource adequacy cycle.

1           (D~~F~~) The Independent Market Monitor, as part of its responsibilities pursuant to  
2           Public Utility Regulatory Act §39.151(h), may conduct an annual review  
3           of the effectiveness of the SPM.

4           ~~(E~~G~~) ERCOT, through its stakeholder process, may adopt protocols setting the~~  
5           ~~HCAP at a level below that specified in subparagraphs (C) and (D) of this~~  
6           ~~paragraph. Protocols adopted pursuant to this subparagraph shall~~  
7           ~~terminate no later than the 45th day after ERCOT begins to use nodal~~  
8           ~~energy prices for resources pursuant to §25.501(f) of this title (relating to~~  
9           ~~Wholesale Market Design for the Electric Reliability Council of Texas).~~  
10          ~~Protocols adopted pursuant to this subparagraph shall not set the HCAP so~~  
11          ~~low that a resource would be required to offer service to the market below~~  
12          ~~its marginal cost, unless the protocols provide a mechanism allowing the~~  
13          ~~resource to recover such costs.~~

14       (h)     (no change)

15

16

17

