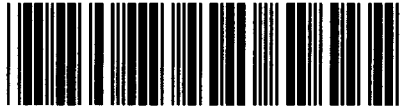




Control Number: 40000



Item Number: 304

Addendum StartPage: 0

OPEN MEETING COVER SHEET

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MEETING DATE: September 13, 2012
DATE DELIVERED: September 12, 2012
AGENDA ITEM NO.: 16
CAPTION: Project No. 40000 - Commission Proceeding to Ensure Resource Adequacy in Texas
ACTION REQUESTED: Discussion and possible action with respect to Resource Adequacy

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Public Utility Commission of Texas

Memorandum

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TO: Chairman Donna L. Nelson
Commissioner Kenneth W. Anderson, Jr.

FROM: Commissioner Rolando Pablos *RBP/p/c*

DATE: September 12, 2012

SUBJECT: **September 13, 2012 Open Meeting, Agenda Item No. 16 - Project No. 40000 - Commission Proceeding to Ensure Resource Adequacy in Texas**

Over the last few months, I have expressed a strong interest in the Commission laying out a road map for developing and implementing a long-term resource adequacy solution.

In light of this continued interest, I asked ERCOT, in conjunction with the Brattle Group, to develop the attached charts¹ to provide high-level decision points that the Commission, along with ERCOT, the Independent Market Monitor (IMM), and stakeholders, will have to make in order to develop and implement long-term stakeholder proposals. These charts are not intended to reflect my position on the stakeholder proposals illustrated in the charts, but rather to provide a starting point for the road map that I have envisioned for the Commission to evaluate the costs and benefits associated with various stakeholder proposals. The Commission will need to get more information from ERCOT, the IMM, the stakeholders, and Brattle Group on any additional decision points associated with the illustrated stakeholder proposals and decision points for other stakeholder proposals that were not included in the charts to fully develop the road map.

I strongly believe that having such a roadmap will help the Commission thoroughly and carefully evaluate the market design decisions, market rule changes, and implementation challenges associated with the various stakeholder proposals. Based on lessons learned from the Nodal market implementation, it is very important for the Commission to have a full understanding of the decision points associated with each stakeholder proposal before making a rushed decision on a long-term resource adequacy solution that could have unintended consequences on the market and Texas economy. Depending on the long-term solution that is ultimately chosen by the Commission, the roadmap could serve as an effective project management tool that could help avoid the pitfalls experienced with the Nodal market implementation.

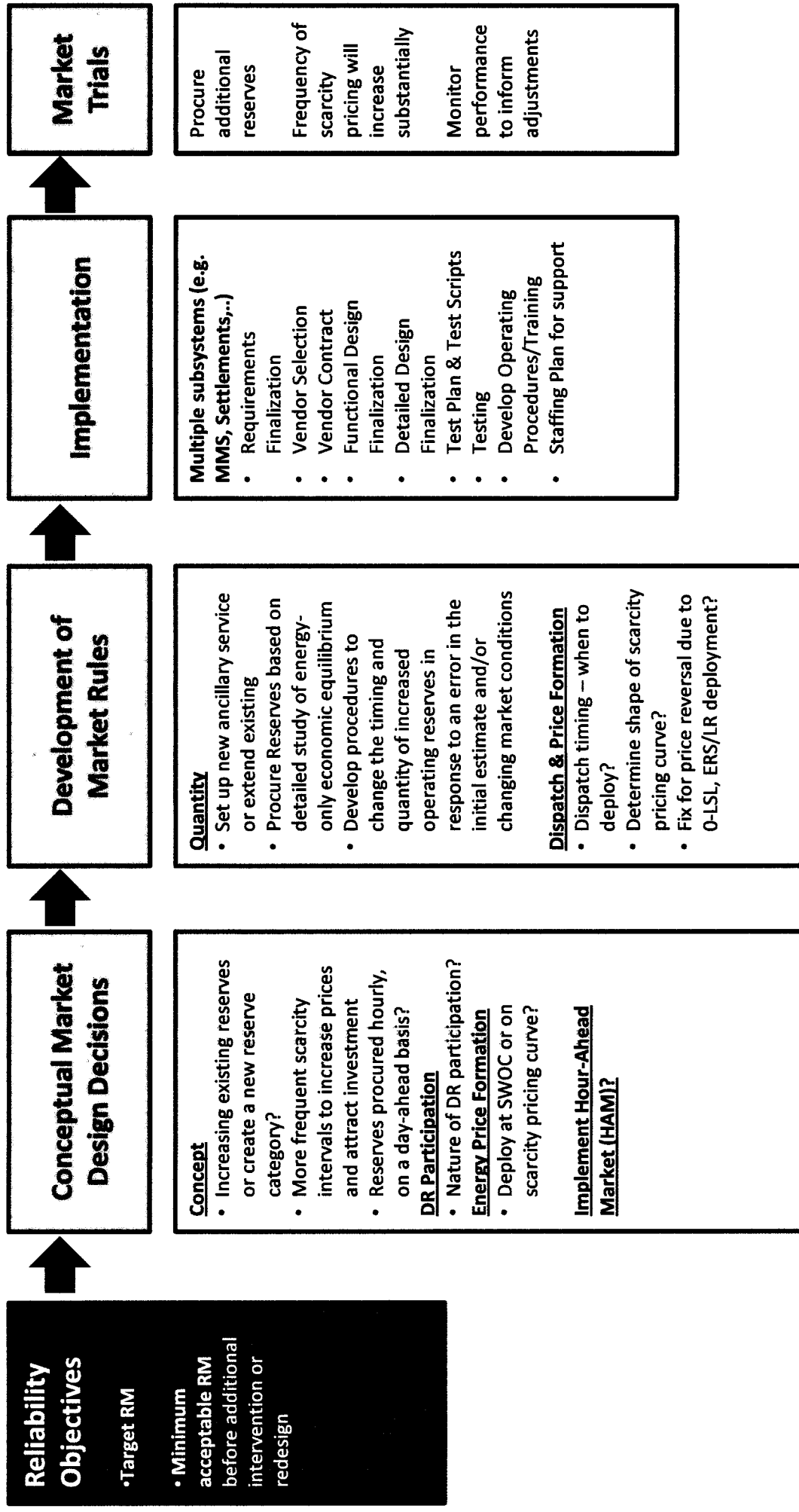
With that said, I am opposed to rushing into a decision that could potentially undo approximately ten years of work on the existing market without a more careful review of the implications associated with the proposed solutions. Since late last year, the Commission, in conjunction with ERCOT and the stakeholders, has taken swift steps to implement measures to improve scarcity price signals, which have yielded positive near-term results that provide the Commission with some additional time to make a well-reasoned decision. I am also interested in seeing the

¹ See four attached charts.

impacts of the higher system-wide offer caps that the Commission will be considering at the September 28, 2012 open meeting irrespective of the Brattle Study's conclusion that ERCOT will not meet the target reserve margin with a \$9,000 system-wide offer cap.

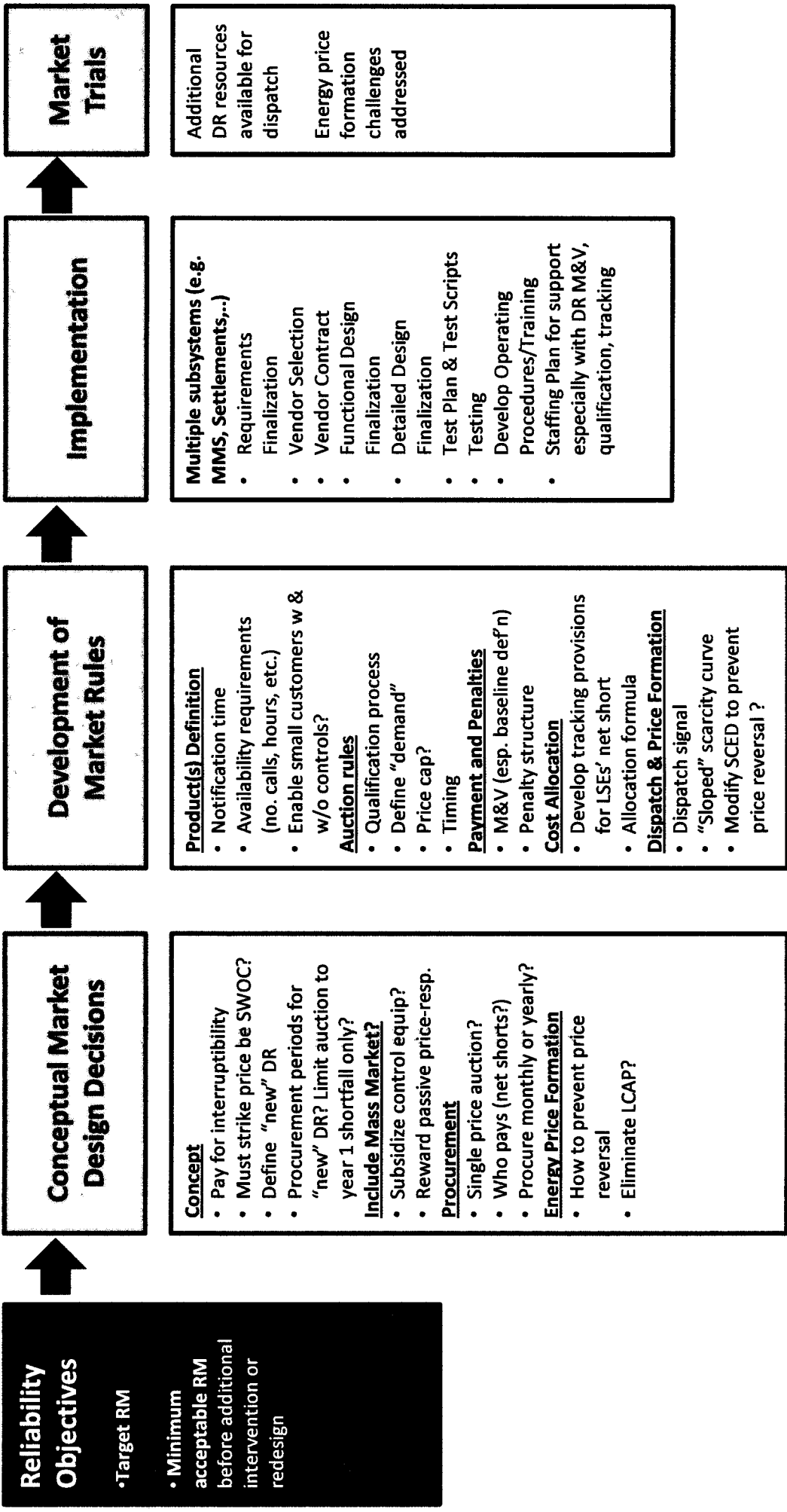
In sum, I hope you will agree that having a comprehensive roadmap, as described above and illustrated in the attached charts, will better enable the Commission to make a more informed decision on a long-term resource adequacy solution that is in the best interest of our state. I welcome your input on my proposed roadmap and look forward to working with you on developing a full roadmap if you so desire.

Option 2: EDF/GDF Proposals for Increased Operating Reserves



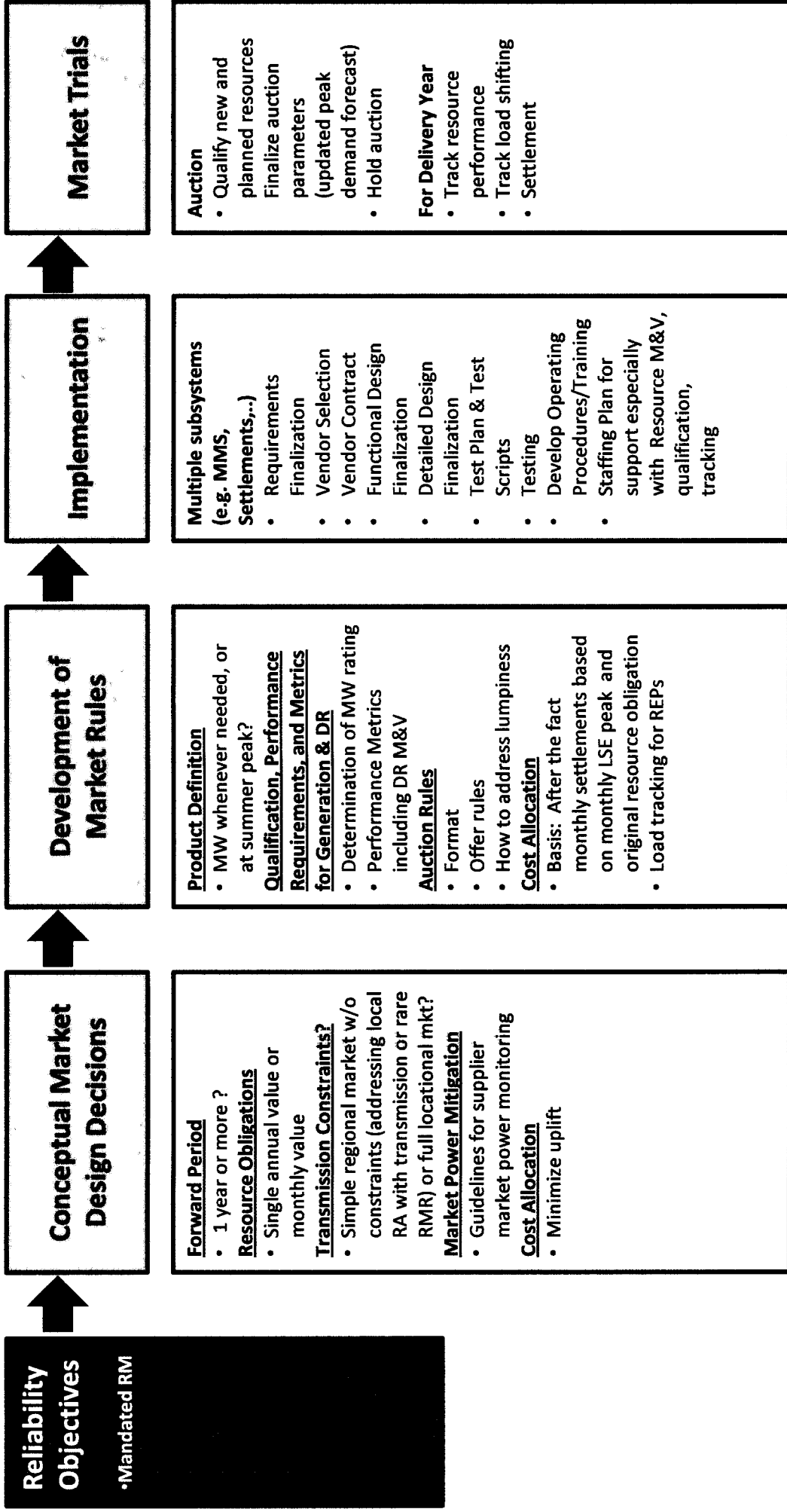
	Conceptual Market Design Decisions	Development Of Market Rules	Implementation	Market Trials
Relative Complexity (1-5):	2 - (w/o HAM) 3 - (w HAM)	2 - (w/o HAM) 3 - (w HAM)	2 - (w/o HAM) 4 - (w HAM)	2 - (w/o HAM) 4 - (w HAM)

Option 3: TIEC Proposal for Energy-Only with Backstop Procurement of DR



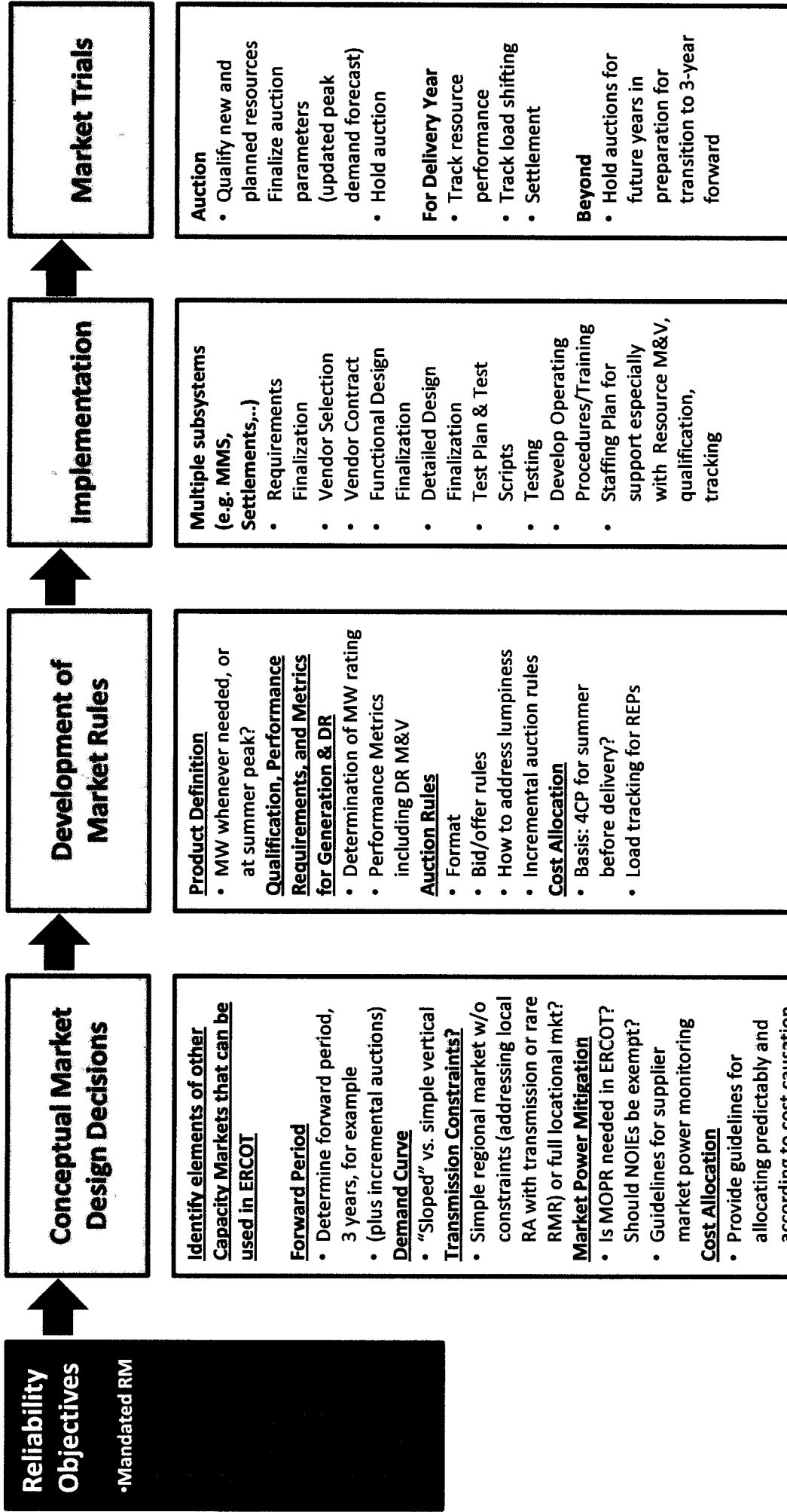
	Conceptual Market Design Decisions	Development Of Market Rules	Implementation	Market Trials
Relative Complexity (1-5):	2	2	4	2

Option 4: Golden Spread Proposal for Mandatory Resource Adequacy Requirements for LSEs with a Residual Auction



	Conceptual Market Design Decisions	Development Of Market Rules	Implementation	Market Trials
Relative Complexity (1-5):	4	5	4	4

Option 5: Calpine/Exelon Proposal for Centralized Forward Capacity Market



	Conceptual Market Design Decisions	Development Of Market Rules	Implementation	Market Trials
Relative Complexity (1-5):	4	5	5	4