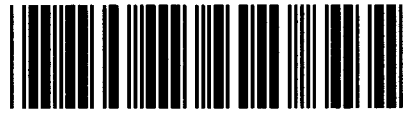


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PROCEEDING RELATED TO §
RESOURCE AND RESERVE §
ADEQUACY AND SCARCITY §
PRICING §

BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

**COMMENTS OF TEXAS COMPETITIVE POWER ADVOCATES ON QUESTIONS
RELATED TO AUGUST 22, 2011 WORKSHOP**

Texas Competitive Power Advocates (“TCPA”)¹ appreciates the opportunity to file the following comments in the above-referenced proceeding in response to the notice of the August 22, 2011 workshop on Scarcity Pricing and Resource Adequacy. In its notice, the Commission requested comments on the following two questions:

1. Please provide proposals to address non-spinning reserve deployment procedures and describe in detail the market incentives that are derived from your proposal.
2. How does your proposal enable the most competitive and efficient prices when non-spinning reserves are deployed?

In our comments filed in this proceeding on June 20, 2011, TCPA recommended that the Commission task ERCOT and the stakeholders to design and implement market adjustments to address the adverse effects on wholesale prices that occur when ERCOT operators take actions to maintain reliability during times of resource scarcity. The Commission’s July 29 workshop provided an excellent forum for discussions leading to the initiation of such a stakeholder process at ERCOT, and TCPA believes good progress is being made therein. Because proposals to address non-spinning reserve deployment procedures have been made and remain under

¹ TCPA members filing these comments include Calpine Energy Services, LP, Constellation Energy Commodities Group, Exelon Generation (Power Team), Gregory Power Partners, LP, IPR-GDF SUEZ Energy Marketing NA, Inc., NextEra Energy Resources, Shell Energy North America (US) and Topaz Power Group.

discussion in that stakeholder process, TCPA will not itself address the details of such proposals in these comments (although some of our members may do so individually), except to observe that the optimum start point for any penalty curve finally adopted should not be less than the level reached in the interval immediately prior to the deployment. TCPA believes that a majority participating in the ERCOT stakeholder process may be able soon to coalesce around an effective proposal that will enable competitive and efficient market prices related to non-spinning reserve deployments.

We are grateful for the Commission's strong engagement in facilitating the ERCOT discussions and its commitment to ensuring that necessary market adjustments are, in fact, approved and implemented. It is imperative for the health of the market that price reversals caused by all operator out-of-market actions be fixed, and that any approved solutions be robust enough to be effective, so adequate scarcity pricing in our energy-only market is allowed to occur. Moreover, while the conditions causing immediate concern may be short-term (in that our Texas summer will end in a couple of months, and the unprecedented drought and persistent heat will someday abate), any approved solution should not be limited in duration to the current crisis, but remain in place until ERCOT can make system changes that address longer-term problems preventing appropriate price formation.

Adequate scarcity pricing has two components: level and duration. Even though wholesale market prices have risen for short periods of time this year in response to weather-induced record demands on the grid, forwards have moved very little, and the peaker net margin is barely over half the target established in P.U.C. SUBST. R. 25.505 (and, in fact, has not been reached in any year since adoption of the rule). ERCOT has set three new all-time system peaks this year, the last surpassing last year's record peak by 2500 MW. Load has exceeded ERCOT's

May, 2011 forecast by 4500 MW, and its operational reserve margin has shrunk to 3.8%.² Reasonable people can argue about whether these facts represent a trend or are unique to this summer. But the fact that wholesale prices are still failing to achieve both the level and duration to incent new investment in generation resources (or to ensure that existing generation resources stay in the market) to meet such demand signals a serious problem (or problems) of long standing that should be addressed. Appropriate scarcity pricing is imperative, especially in an energy-only market, to attract new investment and to maintain our current ERCOT fleet. Despite the counsel of some that the Commission should do nothing, and disingenuous assurances that investments in generation will continue to be made irrespective of revenue adequacy, time is of the essence: no one wants a repeat next summer of this summer's numerous EEA events and ERCOT's grim operating reserve level.

TCPA looks forward to continue working with the Commission, ERCOT and the stakeholders to consider and develop appropriate and effective mechanisms to ensure long term reliability on the ERCOT grid.

Respectfully submitted,

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*by eh
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² See ERCOT CEO's Report to the Board at its August 16, 2011 meeting.