

Control Number: 40000



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**PUC PROJECT NO. 40000**

**COMMISSION PROCEEDING  
TO ENSURE RESOURCE  
ADEQUACY IN TEXAS**

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**PUBLIC UTILITY COMMISSION  
OF TEXAS**

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**GDF SUEZ ENERGY NORTH AMERICA, INC. RESPONSES TO APRIL 3, 2013  
REQUEST FOR COMMENTS**

**I. BACKGROUND**

At the March 28, 2013 Open Meeting, the Public Utility Commission of Texas (“PUC” or “Commission”) requested that parties interested in Project No. 40000 comment on a white paper by Professor William Hogan and the Electric Reliability Council of Texas, Inc. (“ERCOT”) staff entitled “Back-Cast of Interim Solution B<sup>+</sup> to Improve Real-Time Scarcity Pricing,” filed in this docket by ERCOT on March 22, 2013. On April 3, 2013, PUC Staff filed a request for comments which asked interested parties to respond to specific questions, reproduced below.

In accordance with that request, GDF SUEZ Energy North America, Inc. (“GDF SUEZ”) hereby files the following comments, including a discussion of ERCOT’s analysis at minimum contingency levels of 1375 megawatts (“MW”), 1750 MW and 2300 MW.

**II. DISCUSSION**

**A. GDF SUEZ Responses to Staff’s April 3 Questions**

**1) How long will it take and what is the cost to implement Solution B<sup>+</sup>?**

According to ERCOT’s impact analysis, the estimated cost for implementation of Solution B<sup>+</sup> is \$100,000-200,000 and the time frame is approximately 6-8 months.<sup>1</sup>

GDF SUEZ would respectfully reiterate the importance of improving scarcity and energy pricing in the market as quickly as possible. Proper energy pricing is a critical and a necessary

<sup>1</sup> ERCOT Impact Analysis Estimating Cost and Timeline for Implementation of ORDC B+ Proposal at 3 (May 17, 2013).

first step to any future competitive market design and the issue should remain a priority for 2013 at both the Commission and at ERCOT. Implementation of Solution B<sup>+</sup> can be done at cheaper costs and in a shorter amount of time when compared to the more costly, time-consuming, and complex system changes necessary for full-time co-optimization.

**2) If Solution B<sup>+</sup> is implemented, will the benefits of implementing full real-time co-optimization exceed the incremental costs of such implementation?**

GDF SUEZ believes that the Operating Reserve Demand Curve (“ORDC”) is the centerpiece of the Dr. Hogan’s scarcity pricing reform proposal and will substantially improve price signals in the ERCOT energy market. Implementing Solution B<sup>+</sup> can achieve significant benefits in the pricing of operating reserves and will make a meaningful and positive contribution to the “missing money” issue in ERCOT. We believe if the ORDC is implemented, there is a strong likelihood that the substantial effort needed to fully co-optimize energy and capacity in real-time may not be needed.

However, if the Commission decides that further enhancements are needed in the market to augment that approach, then a cost-benefit analysis will be needed to determine implementation costs and the incremental benefits of transitioning to the full co-optimization of energy and capacity in real-time.

**3) If Solution B<sup>+</sup> is implemented, are bidding floors for ancillary services still needed to avoid price reversal? If so, should minimum bids for ancillary services be set according to a curve where minimum bids increase as reserve capacity is depleted, or should the minimum bid be set at a discrete level?**

Yes, floors will be needed. If Solution B<sup>+</sup> is implemented as currently proposed without floor prices, the problem of price reversals—which has been prevalent in this market for some time—will continue. As proposed, the simultaneous deployment of substantial amount of Non-Spinning and Responsive Reserve (“NSRS”) MWs to maintain reliability will result in

significant price reversals that dramatically reduces or eliminates essential scarcity price signals. Preventing price reversals and better scarcity price formation are among the reasons that GDF SUEZ has proposed establishing floor prices of ancillary services along a linear curve. Doing so will help maintain scarcity price formation by providing a mechanism for reliability MWs to be deployed incrementally (rather than in large amounts) at pricing points that better reflect supply and demand conditions.

**4) With regard to minimum bids for ancillary services, should different ancillary services (such as on-line non-spin and off-line non-spin) be treated differently?**

No. GDF SUEZ believes there should be no differentiation if Solution B<sup>+</sup> is implemented as proposed. All NSRS should be off-line and utilized as a reliability product to be released by ERCOT when system conditions warrant their deployment. Currently, On-Line NSRS does not serve solely as reliability reserves when on-line. Generators can freely switch from off-line to on-line in the intraday market to participate in the SCED with a unit's Low Sustainable Limit ("LSL") prior to the dispatch above LSL at the \$120/MWh floor price. The minimum energy from these on-line resources interacts with the offers placed into SCED and has the effect of suppressing the wholesale price, when system conditions do not warrant their deployment.

**B. GDF SUEZ Discussion of Subsequent ERCOT Analysis<sup>2</sup>**

The results of ERCOT's analysis highlights that wholesale price sensitivity is greater at the proposed system-wide offer cap ("SWOC") levels when considered with an upward adjustment to the minimum contingency level of 1750 MW. This would suggest that determining the proper level for the minimum contingency in conjunction with SWOC will prove more beneficial to the market than simply relying on SWOC increases alone. Material

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<sup>2</sup> ERCOT's Supplemental Analysis of Issues in ORDC B+ White Paper (May 3, 2013).

price increases are evident in the scenarios for 2011 and 2012 using SWOCs of \$5000, \$7000 and \$9000 when the minimum contingency is elevated above the 1750 MW level to 2300 MW.

ERCOT operator emergency actions to improve reliability have a price value to the market and they should continue to be priced appropriately. These actions, occurring after Responsive Reserve Service (“RRS”) is deployed at the SWOC, include load resources (“LRS”), Emergency Response Service for both 10 minutes and 30 minutes, voltage reduction, going to the DC ties, etc. In the current market, that value of those reliability actions and the 2800 MW of RRS is at the SWOC. Therefore, GDF SUEZ believes it is reasonable for the minimum contingency level in ERCOT to be set at 2300 MW. This is the level at which RRS is already being deployed and ERCOT operators start taking further emergency actions.

### III. CONCLUSION

GDF SUEZ appreciates the opportunity to provide continued input while the PUC, ERCOT, and stakeholders work together to find improvements to the ERCOT energy-only market that will increase operating reserves for future reliability for consumers.

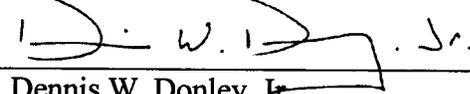
Respectfully Submitted,

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