



Control Number: 40000



Item Number: 442

Addendum StartPage: 0

PROJECT NO. 40000

COMMISSION PROCEEDING
TO ENSURE RESOURCE
ADEQUACY IN TEXAS

§
§
§

PUBLIC UTILITY COMMISSION
OF TEXAS

2013 JUL 29 PM 2:42
FILING CLERK

**COMMENTS OF GDF SUEZ REGARDING THE ERCOT BACKCAST ANALYSIS OF
OPTION B+ ALTERNATIVE PROPOSALS**

I. BACKGROUND

At the July 19, 2013 Open Meeting, Chairman Nelson of the (“PUC” or “Commission”) requested that parties interested in Project No. 40000 file any comments by Monday, July 29, 2013. In accordance with that request, GDF SUEZ Energy North America, Inc. (“GDF SUEZ”) hereby files the following comments.

II. DISCUSSION

GDF SUEZ continues to support measures that improve scarcity pricing in the Electric Reliability Council of Texas (“ERCOT”). Option B+ has the potential to greatly enhance scarcity price formation and should be a fundamental element and first step to any future market design. By placing operating reserves on a curve, Option B+ will value reliability more appropriately as supplies are depleted. Hedge-able price impacts will be spread over more hours. Consequently, GDF SUEZ believes that the Option B+ proposal for an operating demand curve will help reduce the impact of any increased scarcity pricing in the wholesale market.

It is urgent that changes to the ERCOT market occur soon to address resource adequacy concerns. Energy prices, specifically scarcity pricing, need to remain the primary driver of revenues in the ERCOT competitive electricity market. Effective pricing can signal when and where generation is needed, and it promotes competition in technologies and efficiencies. If we

improve the price signals and allow the market to work, proper price signals will be reflected in the forward markets, and investors will respond.

On July 19, 2013, Commissioner Anderson filed a memorandum in this proceeding (Item 435) providing several alternative proposals for Option B+.¹ At the request of the Commission, ERCOT subsequently developed a back-cast analysis of those proposals and filed those results on July 25, 2013 (Item 437).

Listed below is a short summary of the alternative solutions and their positive contribution to Peaker Net Margin (“PNM” – the proxy revenues of a theoretical combustion turbine plant necessary to incent investment) as reported by ERCOT with various Minimum Contingency Levels, Value of Lost Load (“VOLL”), and the Value of Non-Market Actions (“VNMA”).

Case 1

VOLL = \$9,000;
Min. Contingency Level or “X” = 1375 MW
VNMA (to avoid EEA 1) = \$5k
2012 Addition to PNM = \$60k/MW
Energy Weighted-Avg. Price Adder = \$8.32

Case 2

VOLL = \$9,000;
Min. Contingency Level or “X” = 1375
MWVNMA (to avoid EEA 1) = \$7k
2012 Addition to PNM = \$80k/MW
Energy Weighted-Avg. Price Adder = \$11.04

Case 3

VOLL = \$9,000;
Min. Contingency Level or “X” = 2800 MW
2012 Addition to PNM = \$230k/MW
Energy Weighted-Avg. Price Adder = \$31.62

Case 4

VOLL = \$9,000;
Min. Contingency Level or “X” = 3300 MW
2012 Addition to PNM = \$790k/MW
Energy Weighted-Avg. Price Adder = \$108.71

A. Energy Prices Enhanced – Positive Contributions to PNM

GDF SUEZ notes that implementation of any of the Option B+ Alternative Proposals analyzed by ERCOT and summarized above would have provided a positive contribution to the “missing money” and stronger price signals in ERCOT in 2012, with varying levels of impact. While the effects of future market behavior was not estimated (meaning the uplift could be

¹ A corrected memorandum was filed on July 25 (Item 438).

lower), the values ranged from a \$60,000 addition to PNM for Case 1 to over \$790,000 addition to PNM in Case 4 with the energy weighted-average price adder ranging from \$8.32/MWh (minimum a contingency level of 1375 MW) to over \$108.71/MWh (minimum contingency level of 3300 MW).

It is important for the Commission to note that the additions to CT total energy margins (indicative of PNM) are at the high end of the spectrum as noted by Brattle.² The reason stated is the change in likely market behavior. GDF SUEZ believes that these behaviors—that incent more flexible generation and increased demand response—are the exact responses that are necessary in a viable long-term market. Thus, GDF SUEZ has previously stated and continues to support a scenario with a minimum contingency level of at least 2300 MW to ensure proper contribution to the “missing money” and stronger price signals in the market.

B. GDF SUEZ Supports a Commission Decision to Implement Option B+ August 9th

The timing of a Commission decision is critical as this market has seen a dearth of price signals for several years. GDF SUEZ continues to believe that no issue in the resource adequacy debate is more critical than improving energy pricing. Proper energy pricing, including proper scarcity price formation, should be the first priority of the Commission in this docket and should also be the cornerstone to any future market design. The implementation of Option B+ is shown to be positive for the market in the ERCOT back-cast and does not preclude any future market design changes. Because it is vital that it be implemented now, GDF SUEZ supports the Commission taking action on August 9th to implement Option B+.

² “Additional ORDC B+ Economic Equilibrium Planning Reserve Margin Estimates” by Sam Newell and Mike DeLucia (July 2013) at 10 and 12, filed by ERCOT in Docket No. 40000 (Item 437).

III. CONCLUSION

As always, 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 provide greater reliability and a sound foundation for any future changes that the Commission may find necessary.

Respectfully Submitted,

GDF SUEZ ENERGY NORTH AMERICA, INC.
1990 Post Oak Boulevard
Suite 1900
Houston, Texas 77056
Telephone: (713) 636-1969

By: Rob Minter *by permission on*
Rob Minter
Senior Vice President,
Government & Regulatory Affairs,
GDF SUEZ North America, Inc.

NAMAN, HOWELL, SMITH & LEE, PLLC
8310 N. Capital of Texas Highway, Ste. 490
Austin, Texas 78731
Telephone: (512) 479-0300
Facsimile: (512) 474-1901

By: Dennis W. Donley, Jr.
Dennis W. Donley, Jr.
Texas Bar Number 24004620
Stephanie S. Potter
Texas Bar Number 24065923

ATTORNEYS FOR GDF SUEZ ENERGY NORTH AMERICA, INC.