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PUBLIC UTILITY COMMISSION FILING CLERK

PROJECT NO. 40000

COMMISSION PROCEEDING TO ENSURE RESOURCE ADEQUACY IN TEXAS	§ § §	PUBLIC UTILITY COMMISSION OF TEXAS

SOUTH TEXAS ELECTRIC COOPERATIVE INC.'S
COMMENTS IN SUPPORT OF THOSE PARTIES
OPPOSING GDF SUEZ'S PROPOSAL

Comes Now South Texas Electric Cooperative, Inc. ("STEC") and files its comments in support of the comments filed by Austin Energy/CPS Energy, TIEC, NRG, and the IMM in opposition to the proposal by GDF SUEZ to increase the Value of Lost Load (VOLL) to either $18,000 or $25,000 in order to achieve "a positive contribution to the missing money issue in ERCOT." As emphasized by the opposing parties, ORDC was designed to improve pricing signals in times of scarcity of resources and not as a resource adequacy provision.

NRG correctly points out that a Brattle analysis shows that the "ORDC cannot simultaneously deliver market efficiency and resource adequacy." This would be true even if the VOLL was raised to $18,000. Austin Energy/CPS Energy, TIEC and the IMM have accurately shown that if the VOLL is increased to either $18,000 or $25,000, the increased VOLL would substantially shift the entire curve even when resources are not scarce. This would result in increased prices along the entire curve even when resources are adequate and the Loss of Load Probability (LOLP) is low.

TIEC has correctly noted that the "probability of loss of load decreases exponentially with added reserves." And clearly all components of the ORDC were developed to work in synchronization with one another in order for the

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curve to function appropriately. Thus, increasing the VOLL as sought by GDF Suez would "break" one component of the calculation and only encourage further inefficiencies in the market over those already existing that are attributable to the Commission setting the contingency reserve at 2000 MW rather than 1375 MW as was shown by the IMM. Thus, the ORDC under GDF Suez's proposal would be sending an inflated, inappropriate, and early signal for additional resource commitment when the need does not exist. More importantly, the increased VOLL would lead to inefficient and unnecessary price signals that cannot be justified and are inconsistent with "first principles" upon which the ORDC was based.

Austin Energy/CPS Energy comments also raises a procedural problem with the way this issue is being addressed. STEC agrees that it would be better to have the issue addressed in a rule proceeding as was proposed by Chairman Nelson. The Administrative Procedure Act provides for a contested hearing conducted in accordance with certain requirement or a rule-making proceeding also conducted in accordance with certain requirements. STEC strongly urges the Commission to enter into either a contested hearing or a rule-making proceeding before making a final and enforceable decision. Perhaps at some point in time the Commission plans to make this project a rule-making proceeding. However, currently this docket is not being conducted as either a contested case or a rule-making proceeding. Because there is not total agreement among the parties in this proceeding as to how resource adequacy should be addressed, it would be unfortunate if the way this docket is being handled resulted in a reversal of the Commission's ultimate decision on appeal.

STEC urges the Commission to give careful consideration to the arguments made by each of the parties opposed to GDF Suez' proposal, to recognize the fallacies in GDF SUEZ's stated reason as to why it is now bringing up the issue and its arguments on why its proposal is justified.

Respectfully Submitted,

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