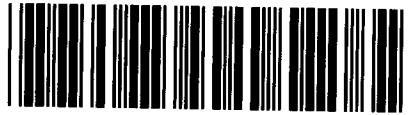


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OPEN MEETING COVER SHEET

MEETING DATE: January 23, 2014
DATE DELIVERED: January 22, 2014
AGENDA ITEM NO.: 18
CAPTION: Project No. 40000 - Commission Proceeding
to Ensure Resource Adequacy in Texas
ACTION REQUESTED: Memo from Chairman Nelson

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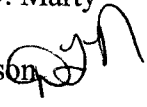
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Public Utility Commission of Texas

Memorandum

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TO: Commissioner Kenneth W. Anderson, Jr.
Commissioner Brandy D. Marty

FROM: Chairman Donna L. Nelson 

DATE: January 22, 2014

RE: **Open Meeting Agenda Item 18;** Project No. 40000 - Commission Proceeding to Ensure Resource Adequacy in Texas

Given the level of discussion regarding the cost of various market designs, I propose that we ask Brattle to work with ERCOT and provide analysis of the various options under consideration by this Commission. Although we sought comment on the issue of cost in our recent round of comments, we have not gathered cost information by customer class. I think it would be helpful to do so. I further propose that before we ask Brattle to conduct this study, we seek comments from the parties on the parameters of the Brattle cost study. I suggest that we set a deadline of February 7, 2014 for comments, so that we can review the comments and set the parameters of the study at our February 21, 2014 Open Meeting. Before we move forward with a hearing on market design, I would like to see the results of the Brattle cost study. It is incumbent upon us to conduct a study designed to provide an "apples to apples" comparison of the various options before this Commission and to have that study before moving forward. In order to allow us sufficient time to set the parameters of the study, to engage Brattle to conduct the study, and to allow Brattle sufficient time to provide the study to the Commission, I propose that we set a hearing for May 15-16, 2014, or other acceptable dates.

I propose that we ask Brattle to model the costs of the following four scenarios:

- Scenario A: Our current market design. Because our system wide offer cap (SWOC) will increase to \$9,000 in June of 2015, I suggest that Scenario A be based on a SWOC of \$9,000. This scenario also needs to assume the ORDC and the costs of programs like ERS and TDSP load management programs. The equilibrium reserve margin will be determined by the modeling of the design parameters.
- Scenario B: This scenario would include an energy market with the ORDC in place plus a forward reliability market. The reserve margin for this scenario will be the same as the reserve margin resulting for Scenario A.
- Scenario C: This scenario would be the same as Scenario B but would assume a 14 percent reserve margin.
- Scenario D: This scenario would be the same as Scenario A but would include a backstop option similar to the Supplemental Reserve Service (SRS) proposal put forth by TIEC, designed to deliver a 14 percent reserve margin.

The following chart sets forth the concepts laid out above:

	A. Current Energy-Only Market	B. Energy + Reliability Mkt (at RM = A)	C. Energy + Reliability Mkt (at RM = 14%)	D. Energy + Backstop (at RM = 14%)
Equilibrium Reserve Margin %	A%	A%	14%	14%
Annual Loss of Load Hours				
Residential	A#H(R)	B#H(R)	C#H(R)	D#H(R)
Commercial	A#H(C)	B#H(C)	C#H(C)	D#H(C)
Industrial	A#H(I)	B#H(I)	C#H(I)	D#H(I)
Cost of Power by Customer Class:				
Residential				
Reliability Market	A#1(R)	B#1(R)	C#1(R)	D#1(R)
Energy	A#2(R)	B#2(R)	C#2(R)	D#2(R)
Capacity Backstop Programs	A#3(R)	B#3(R)	C#3(R)	D#3(R)
Loss of Load	A#4(R)	B#4(R)	C#4(R)	D#4(R)
Total	A#Sum(R)	B#Sum(R)	C#Sum(R)	D#Sum(R)
Commercial				
Reliability Market	A#1(C)	B#1(C)	C#1(C)	D#1(C)
Energy	A#2(C)	B#2(C)	C#2(C)	D#2(C)
Capacity Backstop Programs	A#3(C)	B#3(C)	C#3(C)	D#3(C)
Loss of Load	A#4(C)	B#4(C)	C#4(C)	D#4(C)
Total	A#Sum(C)	B#Sum(C)	C#Sum(C)	D#Sum(C)
Industrial				
Reliability Market	A#1(I)	B#1(I)	C#1(I)	D#1(I)
Energy	A#2(I)	B#2(I)	C#2(I)	D#2(I)
Capacity Backstop Programs	A#3(I)	B#3(I)	C#3(I)	D#3(I)
Loss of Load	A#4(I)	B#4(I)	C#4(I)	D#4(I)
Total	A#Sum(I)	B#Sum(I)	C#Sum(I)	D#Sum(I)
Total Cost of Power	A#Sum(R) + A#Sum(C) + A#Sum(I)	B#Sum(R) + B#Sum(C) + B#Sum(I)	C#Sum(R) + C#Sum(C) + C#Sum(I)	D#Sum(R) + D#Sum(C) + D#Sum(I)

I look forward to discussing this with you at the open meeting.