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PROCEEDING RELATING TO   §   PUBLIC UTILITY COMMISSION

RESOURCE ADEQUACY IN THE   §

ERCOT POWER REGION   §   OF TEXAS

TEXAS INDUSTRIAL ENERGY CONSUMERS' COMMENTS IN RESPONSE TO DISCUSSION AT THE JULY 19 OPEN MEETING

Texas Industrial Energy Consumers (TIEC) has consistently supported implementing a scarcity pricing curve that would allow prices to rise more gradually as reserves are depleted. As noted in prior TIEC comments,[1] this market design would provide more efficient scarcity pricing, allowing both generators and loads to respond to market signals more effectively. The Brattle Report also noted that "[a] more continuous scarcity pricing approach will better-enable price-responsive demand to contribute to price formation."[2]

It is not accurate to describe a more gradual scarcity pricing curve as "taking money out of the market," as some have suggested. The Brattle Report recommendation to increase the SWOC to approach the VOLL was accompanied by a recommendation to implement a more gradual scarcity pricing curve.[3] Similar in concept, the original "Integrated Proxy Demand Curve" was laid out by Commissioner Anderson in his September 27, 2012 memo in Project No. 40268 in conjunction with adopting the recent SWOC increases.[4] A more gradual scarcity pricing function has been a part of the discussions from the beginning, and any expectation that the SWOC would increase to the VOLL without other refinements to existing scarcity pricing mechanisms is misplaced.

A properly designed operating reserve demand curve (ORDC) would be consistent with the more gradual scarcity pricing curve envisioned by the Brattle Report and TIEC's prior comments. As provided in TIEC's May 31, 2013 comments, in a properly designed ORDC, the

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[1] *See, e.g., PUC Rulemaking to Amend PUC Subst. R. 25.505, Relating to Resource Adequacy in the ERCOT Power Region,* Project No. 40268, Texas Industrial Energy Consumers' Initial Comments (June 15, 2012); *PUC Proceeding Relating to Resource and Reserve Adequacy and Shortage Pricing,* Project 37897, TIEC Comments at 5 (May 29, 2012).CITE

[2] Brattle Report at 79-80.

[3] Brattle Report at 81.

[4] Project No. 40268, Memo from Commissioner Anderson at 3 (September 17, 2012)

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minimum contingency level (MCL) would be set no higher than 1375 MW of reserves.[5] Both Dr. Hogan and the Brattle Report have indicated that if the SWOC is set at the VOLL, prices should not reach the SWOC until the market is at or near shedding firm load.[6] This is also consistent with Commissioner Anderson's statements in his memo recommending adoption of the recent SWOC increases, which stated "[t]he higher caps adopted should come into play only when or just before firm load shed would occur and the slope should be extended to allow for more efficient price formation."[7] The Commission should continue with this plan, to have prices only reach the cap when the system is at or near firm load shed, with a scarcity pricing function that properly values reserves while giving the market sufficient time to efficiently respond to escalating prices. Departing from these principles significantly increases the risk of unintended consequences, and creates incentives for inefficient behavior from market participants.

In conjunction with a 1375 MW minimum contingency level, Commissioner Anderson's recent memorandum and ERCOT's recent backcast incorporate scenarios where a supplemental price curve would provide a "Value of Non-Market Actions," or VNMA. TIEC is still reviewing this proposal; however, TIEC believes that the principles articulated by the IMM in July 25, 2013 comments should be considered. Prices within ERCOT when certain non-market actions are taken today are influenced by existing scarcity pricing mechanisms, including price floors for certain services. Assuming that these prices reflect the actual value of non-market actions is in many instances incorrect, and setting a supplemental "VNMA" curve based on this pricing is likely to be inefficient. Even the Brattle Report recognized that moving to higher SWOCs would likely mean revisiting some of the prior decisions to set prices at the cap during reliability deployments,[8] and the Hogan proposal will almost certainly yield different results. For example, if prices are at the current SWOC when DC Tie exports are curtailed today, it is impossible to

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[5] Project No. 40000, TIEC Response to Commission Questions at 1-2 (May 31, 2013).

[6] As Dr. Hogan explained, "[w]henever there is *involuntary load curtailment* and the system has just the minimum of contingency operating reserves, then any increment of reserves would correspondingly reduce the load curtailment. Hence the price of operating reserves should be set at the value of lost load." Hogan, William, *"Electricity Scarcity Pricing Through Operating Reserves: An ERCOT Window of Opportunity,"* at 6 (Nov. 1, 2012) (emphasis added). Similarly, the Brattle Report recommended that under any market construct, an administrative scarcity pricing function should start "at a much lower level, such as $500/MWh when first deploying responsive reserves, and then increase gradually, reaching $9,000 or VOLL only when *actually shedding load*." Brattle Report at 120; *see also* Brattle Report at 79-80.

[7] Project No. 40268, Memo from Commissioner Anderson (September 17, 2013).

[8] *See* Brattle Report at 75.

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tell whether that is the efficient market price, or whether it is a product of other administrative price under the current market design (*i.e.*, the requirement for Responsive Reserve Service (RRS) to be offered at the current SWOC). In valuing such non-market actions, TIEC would therefore recommend examining data beyond current ERCOT administrative prices at the time of the "non-market" actions to develop a more accurate and efficient pricing outcome.

As stated in previous comments, TIEC continues to believe that the Hogan B+ proposal has merit and that, if properly implemented, it would have a positive impact on resource adequacy. The addition of a secondary price curve for VNMA will require additional analysis and refinement to determine whether it can be accomplished in an efficient manner. TIEC appreciates the opportunity to submit these comments and looks forward to continuing to work with the Commission and other stakeholders on these important issues.

Respectfully submitted,

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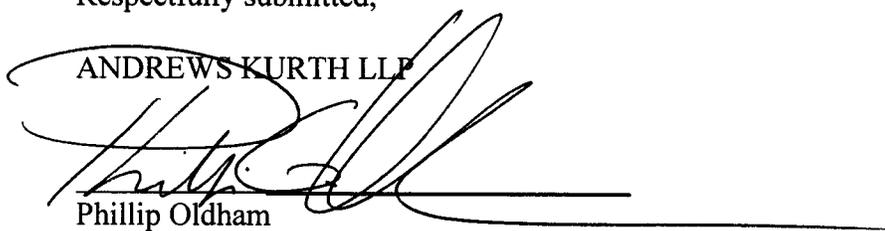
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