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PROJECT NO. 40000

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

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**BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS**

14 MAR 4 AM 9:00
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**COMMENTS OF CPS ENERGY ON POTENTIAL MINIMUM OFFER FLOOR FOR
ON-LINE NON-SPINNING RESERVE SERVICE (NSRS)**

CPS Energy¹ offers comments in the above-styled project to inform the Commission of activities at the Protocol Revision Subcommittee (PRS) at the Electric Reliability Council of Texas (ERCOT). CPS Energy hopes that by informing the Commission of a potential market rule change proposed by Nodal Protocol Revision Request (NPRR) 576, the Commission will have an opportunity to provide feedback, if it desires, on whether this proposed change is consistent with prior Commission decisions on offer floors for ancillary services. NPRR 576 has been recommended by PRS and will be considered at the upcoming Technical Advisory Committee (TAC) meeting.

I. Background

As part of the decision to implement an operating reserve demand curve (ORDC), the Commission required that all existing ancillary service offer floors be eliminated, including the offer floor of \$120/MWh for On-Line Non-Spinning Reserve Service (NSRS). The Commission's stated reason for eliminating the offer floors was that the purpose of the floors—to provide price formation during ancillary service deployments—would instead be served by the ORDC reserve payments (the

¹ CPS Energy™ is the registered trademark of the City Public Service of San Antonio, acting by and through the City Public Service Board.

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“adder”) upon implementation. This change was adopted as part of NPRR 568 (ORDC Implementation), which will become effective on June 1, 2014.

II. Proposed On-Line NSRS Floor in NPRR 576

Independent of the “price formation” issues discussed above, stakeholders have identified a potential issue that relates only to On-Line NSRS, and that could be addressed by a new price floor for that service.

Because all On-Line NSRS is available to SCED for dispatch at any time, some market participants are concerned that when the current offer floors are removed, certain units at certain times will have an incentive to offer into NSRS and receive a capacity payment for providing energy to the market that the unit would have been provided regardless. Some market participants are concerned that this could potentially distort the NSRS clearing price, and that it could result in ERCOT having less incremental capacity from NSRS than it intended to procure.

One option for addressing this potential issue would be to adopt a new price floor for On-Line NSRS. A price floor would create additional risk that a unit providing On-Line NSRS might *not* be dispatched at levels it would find economic, which would further deter units from seeking an NSRS capacity payment for energy the units would have provided anyway. While there are other potential options to address this concern, the stakeholders have expressed a preference for a price floor as the least disruptive proposal. The version of NPRR 576 that was unanimously endorsed by PRS, and will now be considered by TAC, would create this new price floor. As long as the Commission concurs, the specific \$/MWh level of the floor can be determined through the stakeholder process.

III. Opportunity for Commission Input

NPRR 576 addresses a potential issue that is completely separate from the purpose of the prior ancillary service floors. Moreover, NPRR 576 will apply only to a subset of one type of ancillary service (On-Line NSRS), and is not designed to replicate or reinstate the ancillary service offer floors that the Commission previously eliminated. Given these distinctions, the stakeholders did not view NPRR 576 as being in conflict with the Commission's decision to remove the existing ancillary service floors. However, PRS felt that it was appropriate to inform the Commission of this activity and provide an opportunity for the Commission to communicate any concerns it may have prior to the TAC meeting. CPS Energy was asked to submit these comments for that purpose.

The procedural history and discussion summary associated with NPRR 576 are attached for the Commission's reference.²

² The full history of NPRR 576 may be found at:
http://www.ercot.com/content/mktrules/issues/npr/576-600/576/keydocs/576NPRR-05_PRS_Report_031814.doc

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Respectfully submitted,

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PRS Report on NPRR 576

NPRR Number	576	NPRR Title	Changing Non-Spin Service to be Dispatched by ERCOT (formerly "Changing Non-Spin Service to an Off-Line Service")
Timeline	Urgent	Action	Recommended Approval
Date of Decision	March 18, 2014		
Proposed Effective Date	To be determined.		
Priority and Rank Assigned	To be determined.		
Nodal Protocol Sections Requiring Revision	2.1, Definitions 3.8.3, Quick Start Generation Resources 3.17.3, Non-Spinning Reserve Service 6.4.3.2, Energy Offer Curve for Non-Spinning Reserve Capacity 6.5.7.5, Ancillary Services Capacity Monitor 6.5.7.6.2.3, Non-Spinning Reserve Service Deployment 8.1.1.2.1.3, Non-Spinning Reserve Qualification 8.1.1.3.3, Non-Spinning Reserve Capacity Monitoring Criteria 8.1.1.4.3, Non-Spinning Reserve Service Energy Deployment Criteria		
Market Guide Section(s) Requiring Revision	None.		
Revision Description	This Nodal Protocol Revision Request (NPRR) changes the Non-Spinning Reserve (Non-Spin) Service provided by Generation Resources to be Dispatched by ERCOT.		
Reason for Revision	Currently Non-Spin can be provided by On-Line Generation Resources which are always available to Security-Constrained Economic Dispatch (SCED). This creates several issues both from a reliability and market perspective. It reduces reliability because it is being deployed before it is needed therefore no longer there when it is truly needed; and if Entities know this is coming in, they have less MWs in SCED, thus the total available response in system is lower at all times. From a market perspective On-Line Non-Spinning reserves create a non-linearity in prices, thus preventing true scarcity prices as the large amount of On-Line creates an artificial buffer in the supply stack.		
Credit Impacts	To be determined.		
Procedural History	<ul style="list-style-type: none"> ➤ On 10/24/13, NPRR576 was posted. ➤ On 11/21/13, PRS considered NPRR576. ➤ On 3/12/14, GDF Suez comments were posted. ➤ On 3/18/14, CPS Energy comments were posted. ➤ On 3/18/14, PRS again considered NPRR576. 		

PRs Decision	<p>On 11/21/13, PRS voted to table NPRR576 and to refer issues to ROS and WMS. There was one abstention from the Consumer Market Segment. All Market Segments were present for the vote.</p> <p>On 3/18/14, PRS voted to grant NPRR576 Urgent status. There were five abstentions from the Investor Owned Utility (IOU), Independent Retail Electric Provider (IREP), Consumer, Municipal, and Cooperative Market Segments. PRS then unanimously voted to recommend approval of NPRR576 as amended by the 3/18/14 CPS Energy comments and as revised by PRS, and to forward it to TAC; and requested that TAC assign a value to X. All Market Segments were present for the votes.</p>
Summary of PRS Discussion	<p>On 11/21/13, participants requested that ROS review the issue of the reliability impacts associated with moving On-Line Non-Spin to Off-Line, and that WMS review the market impacts associated with the treatment of On-Line Non-Spin becoming an Off-Line service.</p> <p>On 3/18/14, participants discussed the 3/12/14 GDF Suez comments, raising concerns regarding how ERCOT would release High Ancillary Service Limit (HASL) energy and the effects of non-linear pricing with the possible result of price spikes and reversals. It was debated whether an Energy Offer Curve floor of \$50/MWh for Generation Resources assigned On-Line Non-Spin Ancillary Service Resource Responsibility as proposed by the 3/18/14 CPS Energy comments would be a better approach. Participants also discussed whether this approach would be in conflict with Public Utility Commission of Texas (PUCT) rules or orders and whether to seek PUCT input on this issue. There was consensus to request that TAC assign the offer floor value.</p>

Business Case		
Business Case	1	<i>Increased reliability through ERCOT releasing Non-Spin reserves when system conditions warrant.</i>
	2	<i>On-Line Non-Spin reserves being available to SCED at all times creates a non-linearity in prices, thus preventing true scarcity prices as the large amount of On-Line creates an artificial buffer in the supply stack.</i>

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Comments Received	
Comment Author	Comment Summary
GDF Suez 031214	Reinstated the On-Line Non-Spin, and placed it behind the HASL to be Dispatched by ERCOT.
CPS Energy 031814	Proposed to keep the ability to offer Non-Spin on spinning units, or as an alternative, the installation of a minimum offer floor for On-Line Non-Spin.