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January 31, 2019

Public Utility Commission of Texas
Chairman DeAnn T. Walker
Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin
1701 N. Congress Ave.
Austin, Texas 78711

Re: PUC Project No. 48540, *Review of Real-Time Co-Optimization in the ERCOT Market*

Dear Chairman and Commissioners:

At the January 17, 2019 Open Meeting, the Public Utility Commission of Texas (Commission) discussed Real-Time Co-Optimization (RTC) and gave direction on the following matters. First, Electric Reliability Council of Texas, Inc. (ERCOT) should begin the process to implement RTC in the ERCOT market. Second, ERCOT shall report back to the Commission with “a high level implementation plan and timeline.”¹ And lastly, ERCOT shall set aside “any favorable variance in revenues” for fiscal years 2018 and 2019, and await further Commission discussion on whether such favorable financial variance shall be used to fund the project to implement RTC. ERCOT provides this letter to acknowledge the Commission’s discussion and to help guide next steps.

As previously indicated, the implementation of RTC is a large-scale project that impacts multiple core systems. ERCOT provided a high-level cost estimate of a minimum of \$40 million and a time estimate of 4 to 5 years to implement RTC *after* Commission policy decisions have been made and applicable Protocol changes have been approved by the ERCOT Board of Directors (Board).² Thus, there are policy decisions that need to be made by the Commission before ERCOT can adequately put together a set of Protocol changes for stakeholder and Board consideration. ERCOT has been working with Commission Staff and the Independent Market Monitor (IMM) to identify key policy issues – such as changes to the System-Wide Offer Cap (SWOC) and the Value of Lost Load (VOLL) – the Commission should consider in the near future. Commission Staff has submitted a memo highlighting some of the initial policy issues that can be published by the Commission for stakeholder comment. ERCOT is still evaluating what additional policy issues should be considered by the Commission versus the ERCOT stakeholder process and plans to file another letter in time for the February 28, 2019 Open Meeting detailing any other policy issues. ERCOT believes that some ERCOT stakeholder policy issues cannot be decided without a Commission decision on SWOC and VOLL – and therefore a final set of policy principles to draft Protocol changes may not be complete until some period after Commission action. These outcomes will help provide more context to a future implementation plan and timeline.

¹ *Review of Real-Time Co-Optimization in the ERCOT Market*, Project No. 48540, Chairman DeAnn T. Walker’s Memorandum to Commissioners Arthur C. D’Andrea and Shelly Botkin, (January 16, 2019).

² *PUCT Review of Real-Time Co-Optimization in the ERCOT Region*, Project No. 41837, ERCOT’s Progress Report Regarding Real-Time Co-Optimization, (July 14, 2017)

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With respect to the favorable financial variance, ERCOT currently forecasts a total favorable financial variance of approximately \$40 million for years 2018 and 2019. However, the final amount of any favorable financial variance will be based on the audited financial statements – which for year ended 2018 will be completed and presented to the Board in April 2019, and for year ending 2019 will be completed and presented to the Board in April 2020. ERCOT will provide more details around the projected favorable financial variances at the Board's February 12, 2019 meeting. This information will include more details on the components (such as project spend and timing differences) of the favorable financial variance for 2018 and 2019.

Over the next month, ERCOT will update its Board on the Commission's decisions. ERCOT will further work with the Technical Advisory Committee (TAC) to work on a process that will allow vetting of ERCOT stakeholder policy issues. In fact, at its January 30, 2019 meeting, TAC discussed ERCOT hosting a workshop on RTC to reengage stakeholders on the policy issues and a path forward. ERCOT will work to put together a constructive workshop in February and report back to the Commission. This process can go in parallel with any Commission process for considering policy issues.

ERCOT will provide more details in its next status update to the Commission. ERCOT looks forward to working with the Commission and stakeholders on implementing RTC into the ERCOT market.

Please do not hesitate to call me if you have any questions.

Regards,

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