



Control Number: 51812



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March 4, 2021
PUBLIC UTILITY COMMISSION
FILING CLERK

Public Utility Commission of Texas
Chairman Arthur C. D'Andrea
Commissioner Shelly Botkin
1701 N. Congress Avenue
Austin, Texas 78711

Re: PUC Project No. 51812, Issues Related to the State of Disaster for the February 2021 Winter Weather Event

Dear Chairman and Commissioner:

As the Independent Market Monitor (IMM) for the Public Utility Commission of Texas (Commission), Potomac Economics appreciates the opportunity to provide the following recommendation related to real-time energy prices during the recent winter weather event.

The IMM agrees with the Commission's Order from February 15, 2021, which mandated that real-time energy prices reflect firm load shed by setting prices at the value of lost load (VOLL).¹ This is essential in an energy-only market because it provides efficient economic signals to increase the electric generation needed to restore the load and service it reliably over the long term.

Conversely, it is equally important that prices *not* reflect VOLL when the system is not in shortage and load is being served. The Commission recognized this principle in its Order, expressly stating it is only ERCOT's out-of-market shedding firm load that is required to be reflected in prices. Unfortunately, ERCOT exceeded the mandate of the Commission by continuing to set process at VOLL long after it ceased the firm load shed.

ERCOT recalled the last of the firm load shed instructions at 23:55 on February 17, 2021. Therefore, in order to comply with the Commission Order, the pricing intervention that raised prices to VOLL should have ended immediately at that time. However, ERCOT continued to hold prices at VOLL by inflating the Real-Time On-Line Reliability Deployment Price Adder for an additional 32 hours through the morning of February 19. This decision resulted in \$16 billion in additional costs to ERCOT's market, of which roughly \$1.5 billion was uplifted to load-serving entities to provide make-whole payments to generators for energy that was not needed or produced. Although most energy costs can be hedged by ERCOT's load-serving entities through bilateral contracts or generation, these make-whole payments are particularly harmful because

¹ PUC Project No. 51617, *Calendar Year 2021 -- Open Meeting Agenda Items without an Associated Control*; Second Order Directing ERCOT to take Action and Granting Exception to Commission Rules at 1-2 (Feb. 16, 2021).

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they are uplifted to all loads through the Real-Time Ancillary Service Imbalance Charge. Therefore, they cannot be hedged and will likely result in substantial adverse economic effects, including higher levels of defaults.

Therefore, the IMM recommends that the Commission direct ERCOT to correct the real-time prices from 0:00 February 18, 2021, to 09:00 February 19, 2021, to remove the inappropriate pricing intervention that occurred during that time period. From a practical standpoint, this will primarily be accomplished by removing most, if not all, of the Real-Time On-Line Reliability Deployment Price Adder during these intervals, which will substantially eliminate the Real-Time Ancillary Service Imbalance Charge.

Importantly, adopting this recommendation will not result any revenue shortfalls for ERCOT's generation as the corrected prices will cover the generator's as-offered costs, and efficiently reflect the actual supply, demand, and reserves during this period. We recognize that revising the prices retroactively is not ideal. In this case however, given that the prices are inconsistent with ERCOT's protocols and the Commission Order and that allowing them to remain will result in substantial and unjustified economic harm, we respectfully recommend that the Commission take the action described above to correct ERCOT's real time prices.

As always, the IMM stands ready to address any questions the Commission may have regarding this recommendation or the outcomes in the ERCOT wholesale market.

Sincerely,

Carrie Bivens

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