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DOCKET NO. 24770

**REPORT OF THE ELECTRIC
RELIABILITY COUNCIL OF TEXAS
(ERCOT) TO THE PUCT REGARDING
IMPLEMENTATION OF THE ERCOT
PROTOCOLS**

§
§**PUBLIC UTILITY COMMISSION**
§
§**OF TEXAS**
§

OFFICE OF PUBLIC UTILITY COUNSEL'S COMMENTS

TO THE HONORABLE COMMISSION:

COMES NOW, the Office of Public Utility Counsel ("OPC") to file OPC's
comments and states:

I.

OPC offers the following comments on bid/offer caps for ancillary services and
the Modified Competitive Solution Method (MCSM) for balancing energy service.

OPC supports the continued implementation of price caps and the execution of the
MCSM as proposed by staff. We request the Commission adopt these mitigation tools
proposed by staff as soon as possible. Both proposals serve to protect customers and load
serving entities from excessive prices in the ancillary services markets. Excessive prices
can result from factors such as gaming, exercise of market power, demand inelasticity,
unexpected shortages, and combinations thereof. Any of these factors that take prices far
in excess of marginal cost call into question the efficiency of the market. Further, the
staff proposal achieves its aims without endangering generation adequacy or eliminating
incentives to the real time market.

It is important that the Commission enact the measures proposed by staff as soon
as possible. It is likely the summer months will create additional scenarios for price

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spikes similar to those seen in February. Many legislators have expressed concern to OPC regarding the prices for ancillary services that were realized February 24-27. Finally continued price volatility will hamper the development of the ERCOT market by making it difficult for LSEs to know their costs or more costly to hedge against volatility.

Certainly some players in the market stand to gain from price volatility and those parties will oppose MCSM and price caps. However, their gain will be at the expense of overall market efficiency at a time when confidence in the newly formed market is essential.

Modified Competitive Solution Method (MCSM)

This proposal is geared to fix a strategy termed “Hockey stick bidding”. Staff observed this behavior in February and in at least one other circumstance. This bidding behavior was also observed in California. Staff makes a very compelling case for the implementation of MCSM in its Report dated March 3, 2003 and the Memorandum filed March 18.¹ The report observed that a peaking unit would have fuel costs of \$250 per MWh, yet the UBES service cleared at \$990 per MWh. The price of \$990 was set by a bid for a single MWh. All other quantities bid in that hour were at \$200 or lower. The additional cost of the last hour of UBES was estimated at \$17 million for the price spikes of February 24-25.²

Price Caps

¹ Analysis of Balancing Energy Price Spikes During the Extreme Weather Event of February 24-26, March 3, 2003. “Proposal to Apply a Modified Competitive Solution Method to Balancing Energy Service and Update on Applying the Competitive Method to Ancillary Capacity Services”, March 18, 2003.

² Analysis of Balancing Energy Price Spikes During the Extreme Weather Event of February 24-26, March 3, 2003. p. 2.

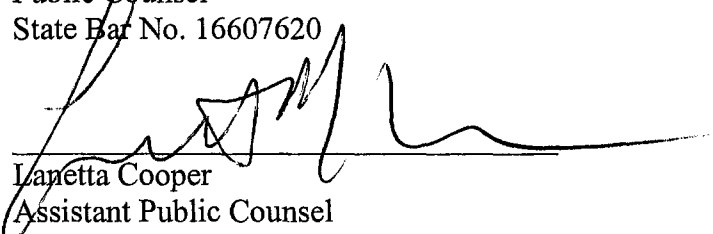
In addition to the protection offered by MCSM for strategic bidding behavior (hockey stick bidding) that is observed, our market also needs protection against strategies that have not yet been observed or foreseen. This is where price caps come in. Price caps offer protection against a surge in prices resulting from some unexpected strategy. Price caps offer protection to the market until a protocol or other action can be taken. Therefore it is imperative that the Commission adopt both MCSM and price caps as tools to protect consumers and load serving entities in the retail market.

Prepared by: Kenan Ögelman

April 3, 2003

Respectfully submitted,

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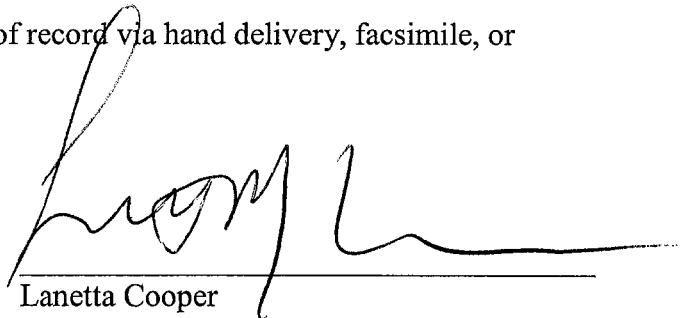
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CERTIFICATE OF SERVICE

Docket No. 24770

I hereby certify that today, 4/3/2003, I served a true copy of the Office Of Public
Utility Counsel's Comments on all parties of record via hand delivery, facsimile, or
United States First-Class Mail.



A handwritten signature in black ink, appearing to read 'Lanetta Cooper', is written over a horizontal line. The signature is fluid and cursive, with a large initial 'L' and a long, sweeping underline.

Lanetta Cooper