Control Number: 24770

Item Number: 230

Addendum StartPage: 0

DOCKET NO. 24770

REPORT OF THE ELECTRIC RELIABILITY COUNCIL OF TEXAS REGARDING CERTAIN MARKET DESIGN ISSUES	§ § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

COMMISSION STAFF'S AMENDMENT TO MODIFIED COMPETITIVE SOLUTION METHOD

After analysis of balancing energy bid data since July 1, 2002, Staff amends one element of its proposed Modified Competitive Solution Method (MCSM). The original proposal called for mitigating the market clearing price for energy (MCPE) to the price corresponding to 90% of the bid stack. However, Staff is satisfied that MCSM will be equally effective at deterring hockey stick bidding – and possibly other forms of gaming – in the Balancing Energy Services (BES) markets if the mitigation level is set to the price corresponding to **95% of the bid stack.**

The Market Oversight Division (MOD) conducted the analysis as part of its evaluation of the mitigation alternative proposed in this docket by City Public Service of San Antonio.[1] The San Antonio alternative, when triggered, would provide for mitigation to the price corresponding to 95% of the bid stack. MOD attempted to quantify the difference between the two mitigation levels using all Up Balancing Energy Service (UBES) bids from July 1, 2002 through March 31, 2003.[2] As a further measure, MOD also quantified the effect of mitigating to 99% of the bid stack.

The accompanying graphs summarize MOD's findings. In short, it is clear that the potential for price gouging is contained in a small sliver of the typical bid curve. Calibrating

[1] At the time that Staff developed the Competitive Solution Method in 2001, there was little data to help determine the mitigation level.

230

mitigation to the 95% point rather than the 90% point would on average result in a 10% higher compensation level for all bidders yet would still ensure that a hockey stick bid would not set the MCPE in the event ERCOT were to deploy all available BES.[3]

The following table compares MCSM and the procedure proposed by San Antonio.

Main Elements of Mitigation

Proposal	*When Effective*	*Mitigation Level*	*Payment Above Mitigation Level*
MCSM	**100%** of stack is deployed	Price corresponding to deployment of 95% of bid stack	**Verifiable cost**
CPS	**95% or more** of stack is deployed		**As bid**

[2] As noted in Commission Staff's Response to Order No. 19 (5/1/03), p. 9-10, since July 1, 2002, ERCOT has been releasing the identities of all qualified scheduling entities (QSEs) who submit bids greater than $300 (or less than -$300) in the BES markets, which appears to have reduced the number of high balancing energy bids considerably.

[3] Staff does not recommend calibrating mitigation to the 99% level, because it would be too easy to circumvent with increased hockey stick bids. The analysis at the 99% level was included to provide a more complete picture of bidding behavior.

Dated: May 13, 2003

Respectfully Submitted,

Thomas S. Hunter
Division Director - Legal and Enforcement Division

Keith Rogas
Director – Legal and Enforcement Division, Electric Section
State Bar No. 00784867
(512) 936-7277 telephone
(512) 936-7268 fax
keith.rogas@puc.state.tx.us

Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

CERTIFICATE OF SERVICE

I, Keith Rogas, certify that copies of this document will be served on all parties on May 13, 2003, in accordance with Public Utility Commission of Texas Procedural Rule 22.74.

Keith Rogas