



Control Number: 34677



Item Number: 12

Addendum StartPage: 0

PROJECT NO. 34677

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2016 JUN 22 AM 11:38

REPORTS OF THE INDEPENDENT
MARKET MONITOR FOR THE
ERCOT REGION

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PUBLIC UTILITY COMMISSION
OF TEXAS

2015 State of the Market Report – REVISED PAGES 88-89

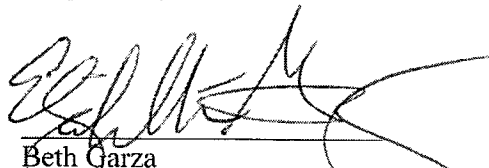
Potomac Economics, as the Independent Market Monitor for ERCOT, hereby submits revised pages 88-89 to the 2015 State of the Market Report. These revised pages correct an error in the original report related to the amount and price of Emergency Response Service (ERS) procured in 2015. The correct values for the ERS contract periods from February 2015 through January 2016 are as follows:

- ERS procurement ranged from 783 – 1018 MW.
- The time and capacity-weighted average price paid for ERS was \$6.45 per MWh.

Revised pages 88-89 are attached to replace the same page numbers from the original report. A corrected version of the full report is available on the Potomac Economics website:

<https://www.potomaceconomics.com>.

Respectfully submitted,



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12
1

For the first five months of 2015, the RRS procurement amount was constant at 2,800 MW, of which 1,400 MW could be provided by load. On June 1, 2015, ERCOT began procuring a variable amount of RRS based on season and time of day. The total amount of RRS varies between 2,300 to 3,000 MW. During 2015, there were no system-wide manual deployments of load resources providing RRS and only one automatic deployment of a small portion of frequency responsive load.

Figure 69 shows amounts of responsive reserves that were either self-scheduled or offered by load resources. The quantity of offers submitted by load resources exceeds the 50 percent limit most of the time. This is only generally not the case when real-time prices are expected to be high. Since load resources provide capacity by reducing consumption, they have to be consuming energy to be eligible to provide the service. During periods of expected high prices the price paid for the energy can exceed the value received from providing responsive reserves. Reduced offer quantities observed during the spring and fall months may reflect the lack of availability of load resources due to annual maintenance at some of the larger load resource facilities.

ERCOT Protocols permit load resources to provide non-spinning reserves and regulation services, but for a variety of reasons there has been minimal participation by load resources.

2. Reliability Programs

There are two main reliability programs in which demand can participate in ERCOT – Emergency Response Service and transmission provider load management programs. The Emergency Response Service (ERS) product is defined by a PUCT Rule enacted in March of 2012 setting a program budget of \$50 million.²⁰ The amount of ERS procured ranged from 783 MW to 1018 MW across the various periods in the 2015 program year. The program was modified from a pay as bid auction to a clearing price auction in 2014, providing a clearer incentive to load to submit offers based on the costs to curtail, including opportunity cost. The time and capacity-weighted average price paid for ERS over the contract periods from February

²⁰ See 16 TEX. ADMIN. CODE § 25.507.

2015 through January 2016 was \$6.45 per MWh, just below the average price of \$6.92 per MWh paid for non-spinning reserves in 2015. ERS was not deployed in 2015.

A load has to make a choice between participating in ERS, providing Ancillary Services, or simply choosing to curtail in response to high wholesale energy prices. A specific load cannot provide more than one of these functions at the same time. Given the high budget allotted and the low risk of deployment, ERS is a very attractive program for loads. Because the ERS program is so lucrative, there is concern that it is limiting the motivation for loads to actively participate in SCED and contribute to price formation. We suggest that the PUCT evaluate the need for and structure of this program.²¹

Beyond ERS there are slightly less than 200 MW of load participating in load management programs administered by transmission providers. Energy efficiency and peak load reduction programs are required under state law and PUCT rule and most commonly take the form of load management, where participants allow electricity to selected appliances (typically air conditioners) to be curtailed. These programs administered by transmission providers may be deployed by ERCOT during a Level 2 Energy Emergency Alert (EEA).

3. Self-dispatch

In addition to active participation in the ERCOT market and ERCOT-dispatched reliability programs; loads in ERCOT can observe system conditions and reduce consumption accordingly. This response comes in two main forms. The first is by participating in programs administered by competitive retailers and/or third parties to provide shared benefits of load reduction with end-use customers. The second is through actions taken to avoid the allocation of transmission costs. Of these two methods, the more significant impacts are related to actions taken to avoid the allocation of transmission costs.

For decades, transmission costs have been allocated to all loads in ERCOT on the basis of load contribution to the highest 15-minute system demand during each of the four months from June through September. This allocation mechanism is routinely referred to as four coincident peak, or 4CP. Over the last three years, transmission costs have risen by more than 60 percent, thus

²¹ On May 4, 2016, the PUCT opened Docket 45927, *Rulemaking Regarding Emergency Response Service*.