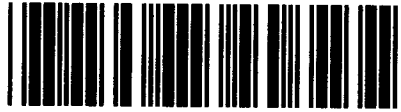


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PUBLIC UTILITY COMMISSION
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COMMENTS OF SOUTH TEXAS ELECTRIC COOPERATIVE INC.

Comes Now South Texas Electric Cooperative, Inc. ("STEC") and files its comments concerning the proposed rule amendment of PUC SUBST. R. 25.505 that would require that in the nodal market design the ERCOT State Estimator Report be posted 14 days after the date for which the data was accumulated.

STEC submits that the competitive market and consumers would best be protected by having the ERCOT State Estimator Report be posted no earlier than 30 days after the date for which the data was accumulated. STEC strongly opposes the posting of the data any earlier than 30 days because of the harm that would occur to the competitive market and the increase in power cost customers within the ERCOT Region would experience.

The preamble to the rule states that it can be argued that early release of the State Estimator Report is necessary in order to understand events that occur in the market and to confirm that the market is operating as would be expected. STEC questions the accuracy of this statement. The ERCOT State Estimator Report information is currently available immediately to the ERCOT Market Monitor, to ERCOT Staff, to Commission Staff and to transmission service providers. The reason for the creation of the market monitor is to ensure through the use of such information that the market is operating as it should. Certainly, the public should be able to assume that if the market is not working as it should,

one of these entities would immediately correct the situation and bring it to the Commission's attention.

It is unlikely that smaller market participants will benefit from the posting of such information. The cost for the software that would be necessary to even read such information could not be justified by smaller market entities seeking to keep their costs down so they can be competitive. However, the larger market participants can use the information, and most likely will use the information, to better enable them to maximize their profits. They can also use the information to manipulate the market, particularly the day-ahead market. Such anti-competitive behavior could thwart the development of a strong, viable day-ahead market, as well as adversely affect other market participants and consumers throughout the ERCOT Region.

Competitive information will be made public if the ERCOT State Estimator Report is posted as early as 14 days. Once a competitor has such information, even if they are in the market purely as a financial player with no generation, it will be impossible to prevent the information from being used by at least some parties in anti-competitive behavior. The availability of the information near real-time would give other market participants the ability to ascertain the online status of a unit along with actual output of a unit in real time. This could be explicitly stated in the State Estimator results or quickly derived through the use of simple addition and subtraction. For instance, entities that have energy to sell could contact an entity it knew had a unit trip and offer energy at an inflated rate.

The need to wait at least 30 days to divulge the information is to prevent

an entity from deriving a pattern of generation from a particular plant and then using that information to game the market in some manner. For example, an entity could determine a pattern of dispatch for a plant and then use that information to create false congestion in the day-ahead market which would not mirror what would occur in the real-time market. The creation of false congestion can occur through the use of a combination of virtual bids, virtual offers, and point-to-point Obligation bids. This would distort the market in that it could cause the QSE that represents/owns the plant to be settled in the day-ahead market based on false congestion, but in real-time there would be no congestion. This would also result in inefficient dispatch of units as the day-ahead market may commit higher cost units to alleviate a constraint that would not actually occur in real time, thereby skipping committing units with lower costs in favor of the higher cost units.


In fact, an example of false congestion occurred on trade day September 14th for trade day September 15th. According to ERCOT, on the market call held on September 15th, congestion at the Pearsall plant was a result of “market activities”, whereas ERCOT pointed out that congestion just south of Dallas was the result of true transmission constraints. ERCOT indicated that the results that they saw were consistent with bids/offers that were placed at the Pearsall 138 bus and at the Pearsall 69 bus. Interestingly, STEC as the owner of the generation on both sides of that auto did not participate in the day-ahead market and therefore had no role in setting the price or contributing to the false congestion. Had the State Estimator data been available as contemplated by the

proposed rule amendment, an entity could have used STEC's pattern of generation to manipulate the outcome at this site and have an adverse financial impact on STEC.

There are two reasons why STEC believes the State Estimator data should not be posted by ERCOT earlier than 30 days after the date for which the data was accumulated. The further out the data is released gets you closer to another weather season and thus a different generation dispatch pattern. This could also help prevent entities from falsely manipulating the CRR market by driving up the price immediately before a CRR auction. For example, an entity could identify STEC's generation pattern, play the virtual bid/offer market for a few days immediately before an auction, increase the volatility at the resource node, which will tend to cause more people to bid for CRRs for that node in hopes of collecting some money from owning the CRRs. This would force STEC to have to bid higher in order to legitimately hedge its load.

The risk that early release of competitive market would adversely affect the development of a strong, viable competitive nodal market out-weighs any benefits that could possibly occur for a release of the ERCOT State Estimator Report earlier than 30 days after the date for which the data was accumulated. STEC respectfully requests that the date for release not be earlier than 30 days rather than the 14 days proposed in the proposed amendment to the rule.

Respectively Submitted,

*w/permission
of:*


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