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ERCOT Failure

ERCOT is an energy-only market, not a capacity market. Wholesale market energy prices are allowed to spike up to \$9000/MWh which is far above the usual price of about \$30/MWh. Most electricity providers get around this with hedging or long-term contracts. Most retail consumers (not Griddy customers) have fixed rate contracts and do not see their prices significantly affected by wholesale market fluctuations. However, most people see an increase from \$30/MWh to \$9000/MWh during an emergency as price gouging. For political and ethical reasons, the price cap should be lowered to something that most people will not view as price gouging, maybe about \$100/MWh. This may require going partially to a capacity market.

Putting aside the pricing concerns, the ERCOT electrical system performed very poorly during the February, 2021 winter freeze. It is not sufficient that the grid did not completely collapse. Freezing days without power is unacceptable. ERCOT does not have sufficient reliable generation capacity. Winterization would alleviate but probably not solve the problem. Winterization is not fool proof. Wind generation is very unpredictable. Solar generation is useless at night. ERCOT needs more generators for peak power. Maybe about 10,000 MW of new generators would be a good balance between adding reliability and adding cost. The big question is how to pay for winterization and additional generators. The most direct way would be to add a capacity component to the wholesale market price. Generating companies should absorb some of the cost but consumers and voters will eventually pay some. The PUC and ERCOT should require generating companies to winterize and add more generators. The PUC and ERCOT should recommend a fair way to pay for this, maybe adding a capacity component to wholesale prices, not more than the equivalent of \$10/MWh until the problem is fixed. The PUC could require regulated utilities to add generators which would then be part of their cost basis, but this would pass all of that cost to consumers.

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