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PUBLIC UTILITY COMMISSION  
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March 22, 2021

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Public Utility Commission of Texas  
1701 North Congress Avenue  
Austin, Texas 78711-3326

**Re: GVEC Support for IMM Recommendations on Ancillary Services in Project No. 51812, Issues Related to the State of Disaster for the February 2021 Winter Weather Event**

Dear Chairman D'Andrea:

Guadalupe Valley Electric Cooperative, Inc. (GVEC) thanks you for your continued work and dedication to the important issues facing our industry. As you know, electric cooperatives are in a unique position relative to most market participants in ERCOT. It is from this unique position and on behalf of our 85,000 member-consumers that I write to support the Independent Market Monitor's (IMM) two recommendations concerning ancillary services (AS).

First, on March 1 and March 11, 2021, the IMM recommended that the Commission reprice all day-ahead AS clearing prices to cap them at the System-Wide Offer Cap of \$9,000/MWh for operating days February 15 through February 20, 2021. We support this recommendation. As the IMM noted, capping those AS prices will produce outcomes more consistent with economic market design principles. Because the purpose of reserves is to support load and reduce the probability of losing load, the value of reserves should not exceed the value of lost load, which is \$9,000/MWh. This is consistent with how resource entities offered into the market—no generator offer exceeded \$9,000/MWh. Additionally, ERCOT's determination of the AS prices for this period may be an interpretation, rather than a mandate, of the rules, as ERCOT Protocol Section 4.5.1(9) is silent concerning the Day-Ahead Market (DAM) algorithm and estimation of opportunity costs. In fact, the Intercontinental Exchange (ICE) has not settled AS contracts for that week due to the uncertainty involved in their final pricing. Therefore, correcting this pricing error should not have the secondary or tertiary effects that other price corrections would have. The IMM calculated the net effect of this correction, accounting for offsetting effects at the corporate level, is about \$900 million.

Second, on March 11, 2021, the IMM highlighted the importance of correcting the Real-Time Ancillary Service Imbalance Charge for the 32-hour period on February 18 and 19, 2021. This charge covers make-whole payments to generators for energy that was not needed or produced. The IMM stated that because ERCOT had a surplus of generation online offered at



prices well below \$9,000/MWh during this period, it was obligated to provide these make-whole payments to cover the "lost profits" of all the generators that would have preferred to produce more energy at \$9,000/MWh. Importantly and as recognized by the IMM, these make-whole payments are particularly harmful because they cannot be effectively hedged by load serving entities such as GVEC. In other words, a load serving entity could have been even or slightly long with hedges on energy, but it would still be responsible for enormous Real-Time Ancillary Service Imbalance Charges. During this 32-hour time period when reserves were fairly substantial, the price for reserves should be low. However, that was not the case. As the IMM observed, this is contrary to economic principles. Correcting this pricing error would not affect ICE settlements, the all in price for energy, or generation dispatch. And because this charge is based on physical load ratio share, any downward price corrections would result in a transfer of funds back to load. The IMM cautioned that not correcting this will likely result in substantial adverse economic effects including higher levels of defaults in the market. The IMM calculated that the net effect of this correction is about \$1 billion. GVEC also supports this correction.

Thank you for the opportunity to provide these comments.

Respectfully,

GUADALUPE VALLEY ELECTRIC COOPERATIVE, INC.

Darren Schauer  
General Manager  
And Chief Executive Officer