



Control Number: 51871



Item Number: 24

Addendum StartPage: 0

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PUBLIC UTILITY COMMISSION
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OPEN MEETING COVER SHEET

MEMORANDUM AND PROPOSAL FOR PUBLICATION

MEETING DATE: May 6, 2021

DATE DELIVERED: April 29, 2021

AGENDA ITEM NO.: 8

CAPTION: Project No. 51871 – Review of the ERCOT
Scarcity Pricing Mechanism

DESCRIPTION: Discussion and possible action

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24

Public Utility Commission of Texas

Memorandum

To: Chairman Peter Lake
Commissioner Will McAdams

From: David Smeltzer, Rules
Werner Roth, Market Analysis

Re: May 6, 2021 Open Meeting, Agenda Item No. 8
Project No. 51871—*Review of the ERCOT Scarcity Pricing Mechanism.*

Date: April 29, 2021

Attached for your consideration is a draft proposal for publication (PFP) of rule amendments to 16 Tex. Admin. Code (TAC) §25.505, relating to Reporting Requirements and the Scarcity Pricing Mechanism in the Electric Reliability Council of Texas Power Region. These proposed amendments will modify the value of the low system-wide offer cap (LCAP) by eliminating a provision that ties the value of LCAP to the natural gas price index and replacing it with a provision that ensures resource entities are able to recover their actual marginal costs in scarcity pricing situations.

Commission Staff recommends that the Commission approve the PFP for publication in the Texas Register.

PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY
PRICING MECHANISM

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PUBLIC UTILITY COMMISSION
OF TEXAS

(STAFF RECOMMENDATION)
PROPOSAL FOR PUBLICATION OF AMENDMENTS TO §25.505
FOR CONSIDERATION AT THE MAY 6, 2021 OPEN MEETING

1 The Public Utility Commission of Texas (commission) proposes amendments to 16 Texas
2 Administrative Code (TAC) §25.505, relating to Reporting Requirements and the Scarcity Pricing
3 Mechanism in the Electric Reliability Council of Texas Power Region. These proposed
4 amendments will modify the value of the low system-wide offer cap (LCAP) by eliminating a
5 provision that ties the value of LCAP to the natural gas price index and replacing it with a provision
6 that ensures resource entities are able to recover their actual marginal costs in scarcity pricing
7 situations.

8

9 ***Growth Impact Statement***

10 The agency provides the following governmental growth impact statement for the proposed rule,
11 as required by Texas Government Code §2001.0221. The agency has determined that for each
12 year of the first five years that the proposed rule is in effect, the following statements will apply:

13 (1) the proposed rule will not create a government program and will not eliminate a government
14 program;

15 (2) implementation of the proposed rule will not require the creation of new employee positions
16 and will not require the elimination of existing employee positions;

- 1 (3) implementation of the proposed rule will not require an increase and will not require a decrease
2 in future legislative appropriations to the agency;
- 3 (4) the proposed rule will not require an increase and will not require a decrease in fees paid to the
4 agency;
- 5 (5) the proposed rule will not create a new regulation;
- 6 (6) the proposed rule will not expand, limit, or repeal an existing regulation;
- 7 (7) the proposed rule will not change the number of individuals subject to the rule's applicability;
8 and
- 9 (8) the proposed rule will not affect this state's economy.

10

11 ***Fiscal Impact on Small and Micro-Businesses and Rural Communities***

12 There is no adverse economic effect anticipated for small businesses, micro-businesses, or rural
13 communities as a result of implementing the proposed rule. Accordingly, no economic impact
14 statement or regulatory flexibility analysis is required under Texas Government Code
15 §2006.002(c).

16

17 ***Takings Impact Analysis***

18 The commission has determined that the proposed rule will not be a taking of private property as
19 defined in chapter 2007 of the Texas Government Code.

20

21 ***Fiscal Impact on State and Local Government***

22 Werner Roth, Market Economist, Market Analysis Division, has determined that for the first five-
23 year period the proposed rule is in effect, there will be no fiscal implications for the state or for

1 units of local government under Texas Government Code §2001.024(a)(4) as a result of enforcing
2 or administering the sections.

3
4 ***Public Benefits***

5 Mr. Roth has also determined that for each year of the first five years the proposed section is in
6 effect, the anticipated public benefits expected as a result of the adoption of the proposed rule will
7 be more price certainty in scarcity situations while ensuring that resource entities are able to
8 recover their marginal costs. There will be no probable economic cost to persons required to
9 comply with the rule under Texas Government Code §2001.024(a)(5).

10
11 ***Local Employment Impact Statement***

12 For each year of the first five years the proposed section is in effect, there should be no effect on
13 a local economy; therefore, no local employment impact statement is required under Texas
14 Government Code §2001.022.

15
16 ***Costs to Regulated Persons***

17 Texas Government Code §2001.0045(b) does not apply to this rulemaking because the commission
18 is expressly excluded under subsection §2001.0045(c)(7).

19
20 ***Public Hearing***

21 The commission staff will conduct a public hearing on this rulemaking on June 10, 2021, if
22 requested in accordance with Texas Government Code §2001.029. In light of the pending public
23 emergency related to the coronavirus disease (COVID-19), this public hearing will be conducted

1 remotely. The request for a public hearing must be received by June 3, 2021. If no request for
2 public hearing is received and the commission staff cancels the hearing, it will file in this project
3 a notification of the cancellation of the hearing prior to the scheduled date for the hearing. If a
4 request for public hearing is received, commission staff will file in this project instructions on how
5 a member of the public can participate in the hearing remotely.

6 7 ***Public Comments***

8 At the time of this filing, the commission's rules requiring that pleadings or documents be
9 physically filed are suspended. See Project Number 50664, *Issues Related to the State of Disaster*
10 *for Coronavirus Disease 2019*, Second Order Suspending Rules filed on July 16, 2020. As long
11 as this suspension remains in effect, comments may be filed through the interchange on the
12 commission's website. If the suspension of these rules is lifted during the pendency of this project,
13 comments may be filed by submitting 16 copies to the Filing Clerk, Public Utility Commission of
14 Texas, 1701 North Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 by June 3, 2021.
15 Comments should be organized in a manner consistent with the organization of the proposed rules.
16 The commission invites specific comments regarding the costs associated with, and benefits that
17 will be gained by, implementation of the proposed rule. The commission will consider the costs
18 and benefits in deciding whether to modify the proposed rules on adoption. All comments should
19 refer to Project Number 51871.

20 21 ***Statutory Authority***

22 These amendments are proposed under §14.002 of the Public Utility Regulatory Act, Tex. Util.
23 Code Ann. (PURA), which provides the commission with the authority to make and enforce rules

1 reasonably required in the exercise of its powers and jurisdiction; PURA §39.101, which
2 establishes that customers are entitled to safe, reliable, and reasonably priced electricity and gives
3 the commission the authority to adopt and enforce rules to carry out these provisions; and §39.151,
4 which grants the commission oversight and review authority over independent organizations such
5 as ERCOT, directs the commission to adopt and enforce rules relating to the reliability of the
6 regional electrical network and accounting for the production and delivery of electricity among
7 generators and all other market participants, and authorizes the commission to delegate to an
8 independent organization such as ERCOT responsibilities for establishing or enforcing such rules.
9
10 Cross reference to statutes: PURA §14.002, 39.101, and 39.151.

1 **§25.505. Reporting Requirements and the Scarcity Pricing Mechanism in the Electricity**
2 **Reliability Council of Texas Power Region.**

3 (a)-(f) (No change.)

4 (g) **Scarcity pricing mechanism (SPM).** ERCOT will administer the SPM. The SPM will
5 operate as follows:

6 (1)-(5) (No change.)

7 (6) **System-Wide Offer Caps.**

8 (A) The low system-wide offer cap (LCAP) will be set ~~at on a daily basis at the~~
9 ~~greater of:~~

10 (i) ~~—\$2,000 per MWh and \$2,000 per MW per hour, or~~

11 (ii) ~~—50 times the natural gas price index value determined by ERCOT, expressed~~
12 ~~in dollars per MWh and dollars per MW per hour.~~

13 (B) The high system-wide offer cap (HCAP) will be \$9,000 per MWh and
14 \$9,000 per MW per hour.

15 (C) The system-wide offer cap will be set equal to the HCAP at the beginning
16 of each calendar year and maintained at this level until the peaker net margin
17 during a calendar year exceeds a threshold of three times the cost of new
18 entry of new generation plants.

19 (D) If the peaker net margin exceeds the threshold established in subparagraph
20 (C) of this paragraph during a calendar year, the system-wide offer cap will
21 be set to the LCAP for the remainder of that calendar year. In this event,
22 ERCOT will continue to apply the operating reserve demand curve and the
23 reliability deployment price adder for the remainder of that calendar year.

1 Energy prices, exclusive of congestion prices, will not exceed the LCAP
2 plus \$1 for the remainder of that calendar year.

3 (E) The value of the lost load will be equal to the value of the system-wide offer
4 cap in effect.

5 **(7) Reimbursement for Operating Losses During an Event when the LCAP is in**
6 **Effect. During an event when the system-wide offer cap is set to the LCAP,**
7 **ERCOT must reimburse resource entities for any actual marginal costs in excess of**
8 **real-time revenues. ERCOT must utilize existing settlement processes to the extent**
9 **possible to verify the resource entity's costs for reimbursement.**

10 (h) (No change.)

11 This agency certifies that the proposal has been reviewed by legal counsel and found to be
12 within the agency's legal authority to adopt.

13

14 ISSUED IN AUSTIN, TEXAS ON THE _____ DAY OF MAY 2021 BY THE
15 PUBLIC UTILITY COMMISSION OF TEXAS
16 ANDREA GONZALEZ