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PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY §
PRICING MECHANISM §
§

PUBLIC UTILITY COMMISSION
OF TEXAS

2021 JUN -3 PM 4:37

**COMMENTS ON PROPOSED AMENDMENTS TO §25.505 OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Electric Reliability Council of Texas, Inc. (ERCOT) submits these comments to the Public Utility Commission of Texas’s (Commission) proposed amendments to 16 Texas Administrative Code (TAC) §25.505, relating to Reporting Requirements and the Scarcity Pricing Mechanism in the ERCOT Power Region. The 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. ERCOT’s comments address the provision that ensures resource entities can recover their marginal costs in a scarcity pricing situation.

The proposed amendments to 16 TAC §25.505 include new paragraph 7, *Reimbursement for Operating Losses During an Event when the LCAP is in Effect*. The proposed language in the proposal for publication could be interpreted to allow a resource entity to seek reimbursement for operating losses when the real-time energy price for the resource is less than the LCAP. ERCOT offers these comments to clarify that a resource entity is eligible for reimbursement of operating losses only if the real-time energy price for the resource exceeds the LCAP. The proposed language in the proposal for publication could also be interpreted to allow a resource entity to seek reimbursement for any actual marginal costs in excess of the LCAP, even in cases where the real-time energy price for the resource exceed LCAP due to congestion on the transmission system. Accordingly, ERCOT offers to clarify that resource entities should only be reimbursed for actual

marginal costs in excess of the LCAP or the real-time energy price for the resource, whichever is larger.

ERCOT proposes the following revisions to the proposed new paragraph 7 of 16 TAC §25.505 for consideration by the Commission.

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

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

ERCOT appreciates the Commission's consideration of these comments and would be pleased to provide any additional information.

Respectfully submitted,

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