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ERCOT Market Reform

PUC Case 52373

Wholesale energy and services should be priced in long term contracts between Load Serving Entities (LSE) and generating entities and there should not be any ERCOT real time or next day market. ERCOT should only schedule generation as required for compliance with those contracts plus forecast deviations. Pricing, including pricing for forecast deviations, should be per long term contracts. These contracts should include reliability obligations, call this LSE Obligations.

The ERCOT market is based on an Operating Reserve Demand Curve (ORDC) with a Value of Lost Load (VOLL) and High Systemwide Offer Cap (HSWOC) up to 9000 $/MWh. This has been called scarcity pricing but a better description might be systematic price gouging. The Reliability Unit Commitment (RUC) process may be the better alternative. The ORDC and HSWOC should be set at actual cost plus reasonable margin. The ORDC and HSWOC should be only tools for dispatching for forecast deviations and actual prices should be per long term contracts.

ERCOT needs more generation, particularly dispatchable generation, but most generating entities should be required to be dispatchable. Wind farms should be required to be controllable and have backup power and should be dispatched only to the amount they can reliably provide. Solar farms are a better fit to the ERCOT load profile if provided with about two hours of battery backup. ERCOT should contract for a Backstop Reserve of new dispatchable generation until other solutions can be implemented.