



Control Number: 26376



Item Number: 126

Addendum StartPage: 0

OPEN MEETING COVER SHEET

RECEIVED
2003 MAR 21 AM 10:34
PUBLIC UTILITY COMMISSION
FILING CLERK

MEETING DATE: March 21, 2003

AGENDA ITEM NO.: 5

CAPTION: Project No. 26376-Rulemaking Proceeding on the Wholesale Market Design Issues in the Electric Reliability Council of Texas.

ACTION REQUESTED: Memo from Commissioner Perlman

Distribution List:

Commissioners' Office (7)
Adib, Parviz
Featherston, David
Hinkle, Martha
Journey, Stephen
Landford, Lane
Mueller, Paula
Durso, Susan
Renfro, Mike
Hunter, Tom
Tyler, Patrick
Totten, Jess
Whittington, Pam
Central Records

Public Utility Commission of Texas

Memorandum

TO: Chairman Becky Klein
Commissioner Julie Parsley

FROM: Commissioner Brett A. Perlman

DATE: March 21, 2003

RE: **Project No. 26376-Rulemaking Proceeding on the Wholesale Market Design Issues in the Electric Reliability Council of Texas.**

I appreciate the work that the WMS performed in evaluating the wholesale roadmap that I discussed at the last open meeting and the ERCOT Stakeholders' Alternative Proposal. While I am mindful that the Alternative Proposal received votes of a majority of the stakeholders present at the WMS meeting, the WMS report and Alternative Proposal do not provide me with sufficient information to endorse the proposal or to reach a decision on wholesale market design. I have several issues with the WMS report:

- The WMS report does not provide me with a prioritized list of “no regrets” items that will improve ERCOT’s current operational issues. In my discussions with ERCOT staff and stakeholders I am convinced that such a list can be developed.
- The WMS report does not provide me with sufficient information to evaluate whether the SMC proposal represents an *interim step* in evolution of ERCOT’s market design. I agree, as stated in the WMS report, that “SMC is not an end state”. Indeed, it was not intended to be one. It was intended to be an *interim step* to improve ERCOT’s operational performance.
- It appears that the Alternative Proposal will simply put off a decision on the ultimate market design end state for over a year without addressing the current operational problems that exist within the ERCOT market.

As I discussed in my prior memo, I believe that our main objectives in wholesale market design should be to (1) improve ERCOT’s operational dispatch; (2) minimize uplift of local congestion costs and (3) evolve the market design, if possible, to leverage ERCOT’s system investment. I am trying to determine whether the existing market design can accomplish these goals, whether we need to go to a new market design or whether there is an incremental path to improve our market design that would provide an option to move to a new market design in the future.

As I have discussed this wholesale market design question with various stakeholders over the past two weeks, there seems to be consensus on the following points that are consistent with these goals:

- There is a list of no regrets actions that could be taken to improve ERCOT's dispatch in the short run. Everyone's list may differ slightly on what is on the list.
- Local congestion uplift could be minimized in the short run thru a number of different measures. (eliminating OOME down, etc., eliminating Category 4 costs)
- A nodal system could not be implemented before 2006 should the Commission decide to implement a nodal system. Some would want a later date and some would want a cost/benefit assessment before any decision is made.
- While there is no consensus, some believe that there are additional interim steps (unit specific bidding) that could improve the ERCOT's operational efficiency while an end state roadmap is discussed.

Accordingly, I would like the WMS to provide me with additional information:

- WMS should provide me with a prioritized chart of "no regrets" items. I have defined the categories that I believe are consistent with a "no regrets" approach (Solves operational problems, reduces congestion uplift, can be quickly implemented, low cost to implement, reusable in a nodal market design). I have attached a chart for WMS to determine which are "no regrets" items and prioritize these items either by consensus or by allowing stakeholders to vote on their top 3 - 5 items.
- WMS should provide me with feedback on the *technical feasibility* of the following proposal: Could ERCOT do the following: (1) implement SMC (i.e. implement unit specific bidding), (2) create some number of additional zones (and TCRs) to improve pricing and (3) post the indicative nodal prices that are derived from implementing unit specific bidding. This would be proposed as an interim step, lasting a year or two, while ERCOT designs and implements a Texas Nodal framework. I would like answers to the following:
 - Would this proposal improve ERCOT's operational efficiency? Why or why not?
 - Would this proposal minimize uplift of local congestion costs? Why or why not?
 - Would this proposal leverage ERCOT's investment in existing operational systems (Package 1)? Why or why not?
 - Is this proposal consistent with a nodal framework should the Commission decide to implement one? Why or why not?

If there is not consensus on this, I would appreciate two statements (one pro and one con).

