



# MEMO

**Date:** March 8, 2005  
**To:** Board of Directors, TAC Chair  
**From:** Read Comstock  
**Subject:** Response to PUCT Request – Economists’ Recommendations on Current Market Design

## **Issue for the ERCOT Board of Directors**

**ERCOT Board of Director Meeting Date:** March 15, 2005

**Agenda Item No.:** 10d

### **Issue:**

Filing of Wholesale Market Subcommittee (WMS) evaluation of Potomac Economics recommendations for improvement of the ERCOT electricity market as set forth in Attachment A.

### **Background/History:**

In November 2004, Potomac Economics provided a report on the operation of the 2004 ERCOT wholesale electricity market. The report contained fourteen recommendations for improvement of the market. The PUCT staff and ERCOT staff reviewed and commented on the draft report before it was finalized and filed. In a memorandum to the PUCT Commissioners dated January 21, 2005, (Attachment B) PUCT Staff noted that the TAC Wholesale Market Subcommittee (WMS) had begun a review of the Potomac recommendations and PUCT Staff had asked the WMS to classify the recommendations according to the following categories:

1. Recommendations that could be done with minimum time and cost impacts to the system, including recommendations that could be easily and quickly implemented and would have benefit in the near term
2. Recommendations that should be implemented regardless of ERCOT’s future market design, including recommendations that could be either short-term or long-term implementations projects that benefit the market whether it stays with a zonal market design or moves to nodal
3. Recommendations that should not be implemented if the Commission decides to move to a nodal design in the near future, including recommendations from which benefit would not be realized adequately if the market moves to a nodal market in the near future (the expected time required, level of effort, and cost for the projects as well as the expected date for a nodal market are key issues in this category)

The PUCT Staff recommended that WMS complete the above classification and provide



# MEMO

sufficient justification for its decision on each recommendation in terms of system impact, timeframe, cost, *etc.* by the end of March 2005. The March deadline included review by the TAC and the ERCOT Board.

At the PUCT Open Meeting on January 27, 2005, the Commissioners discussed the memorandum from the PUCT Staff and agreed that the ERCOT Market Participants should review the Potomac recommendations and report back to the Commission by the end of March 2005.

Starting on January 19, 2005, WMS conducted special task force meetings to review the recommendations and categorize the recommendations into three categories:

- A. Recommendations that should be implemented regardless of ERCOT's future market design
- B. Recommendations that could be done with minimum time and costs impacts to the system
- C. Recommendations that should not be implemented now if we plan to move to a nodal design in the near future (issue is deferred until nodal decision is made)

The result of the WMS evaluation is attached as Attachment A.

## **Key Factors Influencing Issue:**

The WMS met and discussed the Potomac Economics recommendations for improving the ERCOT electricity market, developed a matrix (Attachment A) categorizing the recommendations, including an action plan for implementation of a portion of the recommendations and submitted the evaluation to the Technical Advisory Committee (TAC). TAC considered the evaluation and the action plan at its March 2, 2005 meeting and voted to endorse the WMS action plan. The TAC vote was 25 in favor, 2 opposed and 2 abstentions.

## **Alternatives:**

(1) Approve ERCOT filing the TAC recommendation on the WMS evaluation of the Potomac Economic recommendations (Attachment A) for informational purposes; (2) reject filing of the WMS evaluation; or (3) take no action and ERCOT Staff will make the informational filing of the WMS evaluation.

## **Conclusion/Recommendation:**

As more specifically described above, TAC recommends the Board approve the filing of the WMS evaluation of Potomac recommendations as developed by WMS.