

Position Statement of Calpine Corporation

RE: Calpine Position Statement to the December 5th, 2011 ERCOT Board of Directors Meeting Regarding the South Texas Electric Cooperative Appeal of the Technical Advisory Committee's Action on October 11, 2011 in the matter of Holistic Approach to Congestion Irresolvable in SCED (Security-Constrained Economic Dispatch)

Calpine Corporation supports the October 11, 2011 decision of ERCOT Technical Advisory Committee in regard to Section 3.6 of the ERCOT Business Practice: Setting the Shadow Price Caps and Power Balance Penalties in Security Constrained Economic Dispatch (SCED) and requests that the Board of Directors reject the South Texas Electric Cooperative appeal of that decision for the following reasons:

- 1) The Technical Advisory Committee (TAC) and its subcommittees as well as ERCOT staff and the IMM have been engaged in the issue of SCED irresolvable constraints since May of this year and the Holistic Approach approved by TAC has been fully vetted within all segments of the market including representatives responsible for consumer interests. This solution has been the subject of roll call votes that are well documented, the last one being on October 11, 2011 in which TAC voted overwhelmingly (23 FOR, 5 AGAINST) to affirm the Holistic Approach. The public record is more than sufficient enough and the consensus reached practical and compelling enough to support the Board approving the stakeholders' conclusion and recommendations in this matter.
- 2) TAC's vote should be viewed as not only an affirmation of the Holistic Approach but also an affirmation of the fundamental principles found in PUCT Subst. R. 25.505 that was borrowed from liberally to develop the Holistic Approach. STEC's appeal would alter the use of those principles by eliminating the annual reset of the net margin accumulated value. If STEC's approach were adopted it would make generation solutions more remote by reducing the potential revenue available to them in solving a constraint. That result is counterintuitive in an energy-only market design and would elevate transmission projects as the default solution for all SCED irresolvable constraints, and legitimate and meaningful price signals would not be available to either generation developers or price responsive loads.
- 3) In order for nodal price formation to have legitimacy the price of the marginal dispatch must match with the action taken. In constraints where a resource response is absent and the only action left is to shed firm load the price for that action should approximate the value of lost load (VOLL). STEC's appeal would ask you to nullify that price signal in favor of an administrative price construct that is more convenient for loads which may not be fully hedging themselves. We believe that is an inappropriate method for dealing with irresolvable constraints and discourages effective price hedging.

For these reasons and numerous other compelling reasons offered by other parties during the lengthy stakeholder effort on this matter, we ask that you reject STEC's appeal and restore certainty to the use of the Holistic Solution.