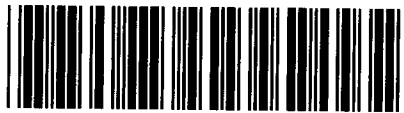


Control Number: 37897



Item Number: 109

Addendum StartPage: 0

OPEN MEETING COVER SHEET

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MEETING DATE: April 12, 2012

DATE DELIVERED: April 11, 2012

AGENDA ITEM NO.: 12 & 13

CAPTION: Project No. 37897 - P.U.C. Proceeding
Relating to Resource and Reserve Adequacy
and Shortage Pricing; Project No. 40268 -
P.U.C. Rulemaking to Amend P.U.C. Subst.
R. 25.505, Relating to Resource Adequacy
in the Electric Reliability Council of Texas
(ERCOT) Power Region

ACTION REQUESTED: **Memo from Chairman Nelson**

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Public Utility Commission of Texas

Memorandum

TO: Commissioner Kenneth W. Anderson, Jr.
Commissioner Rolando Pablos

FROM: Chairman Donna L. Nelson

DATE: April 11, 2012

RE: **April 12, 2012 Open Meeting Agenda Item 12 & 13; Project No. 37897 - P.U.C. Proceeding Relating to Resource and Reserve Adequacy and Shortage Pricing; Project No. 40268 - P.U.C. Rulemaking to Amend P.U.C. SUBST. R. 25.505, Relating to Resource Adequacy in the Electric Reliability Council of Texas (ERCOT) Power Region**

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At the last open meeting, Ken and I asked Staff to draft a proposal for publication that would increase the system-wide offer caps and the peaker net margin threshold beginning in June 2013. We discussed a rulemaking timeline whereby we would approve publication of the rule at this meeting and would complete the rulemaking by the end of August. Pursuant to our instructions, Staff filed a proposal for publication in Project No. 40268. I believe that Staff has implemented the direction we gave them, and I support publication of the rule they drafted.

In addition, I continue to believe that we need to make changes for this summer to help incent the building of additional generating capacity. As I discussed at the last open meeting, I believe we should direct ERCOT to increase the high end of the Power Balance Penalty Curve to \$4,500 and modify the slope of the curve as follows:

MW Violation	New Price (\$/MWh)	Current Price (\$/MWh)
<1	\$500	\$200
1 to <5	\$500	\$250
5 to <10	\$500	\$300
10 to <20	\$1,000	\$400
20 to <30	\$1,000	\$500
30 to <40	\$3,000	\$1,000
40 to <50	\$3,000	\$2,250
50 and more	\$4,500	\$3,001

In conjunction with an increase to the PBPC, we also discussed the need to make a corresponding increase to the price at which energy is injected into the system from regulation up service, responsive reserve service, RUC units acquired for capacity, and RMR units. Based on my understanding that ERCOT has legal concerns with accomplishing this through a good cause exception to the system-wide offer cap, I propose that we direct Staff to publish a new rule

section that increases the HCAP to \$4,500 beginning on August 1, 2012 and ending on June 1, 2013. This will allow us to increase the HCAP for this summer and also allow us to move forward with the rulemaking in Project No. 40268 for 2013 and beyond.

With reserve margins for 2014 and 2015 well below the target margin of 13.75% established by ERCOT, the Commission needs to act swiftly and decisively to incent the building of new generation. Therefore, I propose the following language for the new rule:

“Notwithstanding §25.505 of this title (relating to Resource Adequacy in the Electric Reliability Council of Texas Region), the high system-wide offer cap shall be \$4,500 per MWh and \$4,500 per MW per hour beginning on August 1, 2012 and ending on May 31, 2013.”

I look forward to discussing this with you at the open meeting.