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November 7, 2013

Mr. Gerry W. Cauley
President and Chief Executive Officer
North American Electric Reliability Corporation
3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326

Subject: ERCOT Resource Adequacy Update

Dear Gerry:

As I committed to you in April, following is an update on resource adequacy in the Electric Reliability Council of Texas (ERCOT) region. As we have reported previously, electric reliability and future resource adequacy continue to be ERCOT's top priorities.

This past summer's system peak demand of 67,245 megawatts (MW) — about 1,000 MW short of our Aug. 3, 2011, record — occurred on Aug. 7. There was enough generation available to serve that demand, with several thousand megawatts still available, without activating conservation requests or emergency procedures.

Regarding the near-term outlook, we recently issued our [Seasonal Assessment of Resource Adequacy \(SARA\)](#) report for the upcoming winter and a preliminary assessment for spring. We expect to have sufficient resources available to serve consumer needs for both seasons.

Looking at the long-term outlook, ERCOT's most recent Capacity, Demand and Reserves report, which we released on May 1, showed some improvement from the previous report in December 2012. On the attached chart, you can see the comparison, with the black lines on each bar representing December 2012 data. We plan to release the next Capacity, Demand and Reserves report on Dec. 3, and we will send you that update when it becomes available. In preparation for that update, we are making some changes to our long-term load forecasting methodology, which we believe will improve its accuracy and consistency.

At the policy level, discussions regarding the best approach to encourage new generation development continue at the Public Utility Commission of Texas (PUC), as well as with the ERCOT Board of Directors and our stakeholder committees.

The PUC has indicated plans to provide additional direction following evaluation of an Economically Optimal Reserve Margin study. The Brattle Group plans to provide those study results in January 2014.

To continue enhancing the effectiveness of scarcity pricing to support resource adequacy in our energy-only market, ERCOT is working to implement an Operating Reserve Demand Curve (ORDC). This pricing mechanism, which the PUC directed ERCOT to develop, considers the value of lost load and probability of load loss in setting real-time prices for reserve capacity during scarcity conditions.

We have completed two Emergency Response Service (ERS) pilots that create opportunities for more diverse participation in ERCOT demand response programs. One of those programs, which allows participants 30 minutes to reduce demand when ERS is activated, is in the Protocol development process. Our board will receive an update this month on the results of the other pilot, a unique demand response option for weather-sensitive loads. The ERCOT board also has approved a revised Protocol that enables ERCOT to begin integrating loads into our Security Constrained Economic Dispatch (SCED).

Keeping the increasing role of renewable technology and demand response in mind, we have begun a conversation with stakeholders about ERCOT's future Ancillary Services market. ERCOT staff has drafted a [concept paper](#) outlining opportunities to improve frequency response and stabilization services as we bring more of these resources into the mix.

On an operational front, we are very pleased to have received some significant rainfall this past month and hope to see more in the months ahead. Meanwhile, we remain engaged in statewide drought coordination and are monitoring closely the potential impact of long-term drought on electric demand and plant operations in our region.

ERCOT will continue to work with our market participants and policymakers to provide electric power to the grid in an efficient, reliable manner, and we will keep you informed on these and other topics that relate to near-term and future resource adequacy in the ERCOT region.

I look forward to seeing you later this month. Meanwhile, please let me know if you have questions about this or any other ERCOT matter.

Thanks,

A handwritten signature in black ink that reads "Trip". The letters are cursive and fluid, with a long tail on the 'p'.

H.B. "Trip" Doggett
President and CEO

cc: W. Lane Lanford, President and CEO, Texas RE
The Honorable Donna L. Nelson, Chair, Public Utility Commission of Texas
The Honorable Kenneth W. Anderson, Jr., Commissioner, Public Utility Commission of
Texas
The Honorable Brandy D. Marty, Commissioner, Public Utility Commission of Texas

Capacity, Demand and Reserves – May 2013 outlook

