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Via Email: ERCOT Supply Analysis Working Group

Subject: Comments regarding ORDC Analysis and Proposals

The LS Power Group (“LS Power”) respectfully submits these comments to the Supply Analysis Working Group (“SAWG”) and the Electric Reliability Council of Texas (“ERCOT”) as part of the on-going analysis of the Operating Reserves Demand Curve (“ORDC”). Such analysis was requested by Commissioner Anderson in his 10-7-2015 memo¹. LS Power appreciates the opportunity to comment with the objective of supporting adjustments to the ORDC that should provide appropriate incentives to electric generators and provide for a reliable electric grid in the ERCOT wholesale market.

Founded in 1990, LS Power is an independent power producer engaged in the development, acquisition, and management of power generation and electric transmission infrastructure throughout the U.S. LS Power, through its affiliates, is majority owner of the Sandy Creek Power Plant (“Sandy Creek”), which is a 945MW pulverized coal-fired power plant located in Riesel, Texas that began operating in the spring of 2013. Sandy Creek provides valuable benefits in helping ERCOT to achieve resource adequacy and meet energy demand while maintaining fuel diversity and efficiency.

LS Power provides these comments based on its unique perspective and expertise as an independent power producer (IPP). Specifically, LS Power would like to make the following comments:

1. LS Power supports Option 6 and Option 7

LS Power supports the proposals to increase the level of Minimum Contingency Reserves or “X” to equal the Responsive Reserves Service (“RRS”) + Regulation Up Service (“RUS”), while also setting a minimum RRS procurement of 2,750MW. Specifically, such proposals are referred to in the 12-16-2015 ORDC Options Whitepaper² as Option 6 and Option 7. Adjusting the level of X will reflect the new NERC reliability standard, BAL-003-01 and makes ORDC consistent with Demand curves in Real-Time Co-Optimization, as also noted in the Whitepaper. We believe that resetting the level of X will have the most immediate and positive impact, providing appropriate signals to loads and resources when ERCOT approaches scarcity conditions.

¹ http://interchange.puc.state.tx.us/WebApp/Interchange/Documents/40000_667_868214.PDF

² <http://www.ercot.com/calendar/2015/12/16/80832-SAWG>

Additionally, LS Power requests that this change to the level of X used in the ORDC be implemented prior to summer 2016, if possible, as it would not require any market rule changes.

2. LS Power supports the continued development of the ORDC, to improve operational reliability and provide appropriate incentives.

While the inclusion of the ORDC as contemplated in Options 6 & 7 over the previous eighteen months has demonstrated the potential to incentivize the correct behavior of resources and load, we feel that it may not adequately provide appropriate incentives and the operational reliability intended by the ORDC may deteriorate over time. This deterioration of operational reliability is likely to become exacerbated particularly when giving consideration to current and proposed environmental regulations impacting electric generating units in ERCOT.

The potential negative impact of market forces and advancing environmental regulations has unintended consequences, particularly on the economics of highly-efficient and fuel-diverse generating units such as Sandy Creek. Such impact could be partially offset by providing more appropriate incentives, through the further development of the ORDC, to reliable and efficient power plants in the ERCOT wholesale market. Therefore, LS Power requests that the ORDC methodology be revisited on an annual basis to allow further refinements and consider changes in the market that may not currently be contemplated. An iterative approach to the development of the ORDC is a positive market signal.