**TEXAS INDUSTRIAL ENERGY CONSUMERS’ COMMENTS
ON ORDC AND QUICK-START ISSUES**

Texas Industrial Energy Consumers (TIEC) is invested in the success of ERCOT’s energy-only market design, including the ORDC. TIEC would support necessary market modifications to improve market efficiency and increase the accuracy and effectiveness of scarcity pricing. However, after reviewing materials from ERCOT, participating in SAWG meetings, and discussing these issues with other stakeholders, TIEC has not been able to identify any shortcoming in the current market design that requires significant market modifications. If anything, minor changes to the current treatment of quick start units may be appropriate, but the aggressive changes to the ORDC parameters proposed by some stakeholders are unjustified and overreaching given observed market performance.

1. ***The current market design is performing well. ERCOT and the Commission should foster stability by declining to make additional significant market changes at this time.***

ERCOT has seen a tremendous increase in generation investment since the Commission ceased discussing capacity markets and committed to the “energy-only” market design with the addition of the ORDC. This indicates that investors respond to market stability, and will hold off on making investment decisions in periods of regulatory uncertainty. In addition, many market participants entered into long-term bilateral contracts based on the ORDC parameters adopted by the Commission.

The most recent CDR shows that investment signals in ERCOT are robust, with reserve margins well in excess of the current 13.75% target for the foreseeable future. Here it is as a reminder:

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| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| **Reserve Margin** | 16.5% | 20.7% | 25.7% | 22.9% | 21.8% | 21.1% | 19.9% | 18.8% | 17.7% | 16.6% |

This demonstrates that the current scarcity pricing regime is adequately incentivizing generation investment, and there is no need for significant changes. Stakeholders and the Commission should allow the current market design to continue working, rather than injecting additional change or creating new uncertainty.

Given these CDR projections, proposals from certain stakeholders to dramatically increase the minimum contingency level (MCL) for the ORDC are unjustified and overreaching. In addition to deviating from the economic principles underlying the ORDC, as discussed below, these changes would cause an unjustified wealth transfer from loads to generators. ERCOT’s backcasts indicate that even for the period from June 1, 2014 to October 31, 2015, with relatively mild weather, the most aggressive proposal would have increased peaker net margin (PNM) by more than $80,000, and would have increased the energy- and time-weighted ORDC adder by approximately $10/MWh. In a more extreme weather year such as 2011, ERCOT’s analysis indicates that PNM could increase by more than $600,000 relative to the status quo, with corresponding increases to the energy- and time-weighted ORDC adder of more than $110/MWh. While TIEC understands that these backcasts do not account for behavioral changes or certain other variables, the magnitude of these projections indicates that the underlying proposals far exceed any reasonable modifications to our current market design.

With healthy reserve margins projected through 2025, attempts to dramatically increase market revenues by increasing the MCL could spawn over-investment, leading to undesirable market distortions, price suppression, and calls for additional change. Observed market performance does not support a need for these changes.

1. ***Proposals to increase the MCL are not based on economic principles or sound market design, but an end revenue goal.***

The ORDC was adopted to provide the market with a value for reserves and compensate generators for providing these reserves in addition to ancillary service capacity. While the ORDC undoubtedly has an impact on revenue sufficiency, *in principle* it is not meant to target (much less guarantee) any specific level of PNM, aside from what market conditions economically justify. Attempts to engineer an MCL that will produce a certain level of generator revenues are misguided. The ORDC should be designed based on economic principles, and its parameters should be supported by actual data. These parameters should only be revisited if it becomes apparent that the underlying assumptions are inaccurate—for example, the Value of Lost Load (VOLL) or the level at which ERCOT might begin shedding firm load (the MCL).

Other than a contention by some generators that they should be earning greater revenues, there has been no indication that the values used to develop the ORDC have substantively changed since its adoption. Specifically, **there has been no study or other data to support increasing the VOLL beyond the current $9,000 level**. The MCL adopted at the time of initial ORDC implementation—2,000 MW—was already arguably too high, given information that ERCOT does not start actually shedding firm load until reserves are depleted to around 1,200 MW. **There has been no study or other new information to support increasing the MCL above 2,000, much less to 3,000 MW** as certain stakeholders are proposing. These proposals defy any economic rationale and have no principled basis or supporting data. Increasing the MCL or the VOLL simply to reverse-engineer a certain revenue outcome will lead to market distortions and additional volatility. The current market design is working well, and ERCOT and the Commission should let it continue to do so.

1. ***The ORDC and PRC are two different metrics. Confusion when these values do not converge suggests that market education is needed rather than additional changes to the ORDC.***

TIEC generally agrees with the comments submitted by the ERCOT Steel Mills regarding the concerns that have been raised about August 13, 2015. Specifically, TIEC does not find anything surprising or objectionable about divergence in ORDC and Physical Responsive Capability (PRC) reserve values when more than 1,500 MW of quick start units were showing as available reserves for ORDC purposes, but were not physically online and therefore could not count toward PRC. If anything, this information may suggest that EEA deployments should be tied to ORDC reserves instead of PRC, or that ORDC reserves should at least be a factor ERCOT operators can consider before implementing emergency procedures.

Further, as noted by the ERCOT Steel Mills and others, the divergence between PRC and ORDC appears to have been caused primarily by extremely high offers from certain quick start units. Despite climbing prices, a significant portion of the quick-start capacity was not committed (and, therefore, was not counted in PRC) because offers for those units were in the $1,500 to $1,600 range. The ORDC should not be distorted in an effort to produce prices that would have struck these remarkably high offers, which are well in excess of marginal cost.

As the ERCOT Steel Mills accurately noted, the ORDC was properly valuing reserves based on available capacity on August 13, 2015. The divergence was only that the ORDC can see certain offline (but quickly available) reserves that PRC does not. ORDC and PRC were never expected to have full convergence, so TIEC does not see this as a problem warranting any further market changes. If anything, stakeholders may want to consider removing offline quick-start units from SCED and/or requiring physical commitment when non-spin is deployed, as others have suggested.

TIEC appreciates the opportunity to submit these comments and looks forward to further discussion tomorrow.