

Direct Energy Comments on the Operating Reserve Demand Curve (ORDC)

January 4, 2016

Direct Energy believes the ORDC is functioning as intended by the Public Utility Commission (PUC) and does not believe significant changes are needed at this time. Data provided by the Independent Market Monitor at the October ERCOT Board meeting indicates that the ORDC is providing a reflection of the value of reserves as the reserves diminish and this change has resulted in an increase of the amount of capacity available in real-time.¹ These results are consistent with advantages of the ORDC discussed by the Commission.² Some stakeholders seem to focus on peaker net margin results as indicative of whether or not the ORDC is working as intended. Although peaker net margin is a data point for evaluating investment signals for generation, Direct Energy believes the recent Capacity, Demand, and Reserve Report (CDR) issued by ERCOT is an overriding data point that indicates the ERCOT market currently has more than adequate reserves for the next several years.³ Therefore, Direct Energy does not believe there is a compelling reason to consider changes to the ORDC that could significantly increase energy prices.⁴

Direct Energy is unwilling to agree to changes that could significantly increase energy prices without clear direction from the PUC that significant changes are needed to address resource adequacy concerns. Regulatory certainty is important to Retail Electric Providers and retail customers. As described above, Direct Energy does not believe the data indicates there is an urgent problem that necessitates near term changes that create regulatory uncertainty. Any significant changes to the ORDC implemented prior to summer 2017 would unnecessarily harm Retail Electric Providers and retail customers that have already made commercial decisions based upon the current ORDC market design. If the Commission determines that significant changes designed to increase scarcity price signals are needed, then Direct Energy believes potential solutions should be thoroughly discussed and ultimately decided by the PUC. A final decision by the PUC should occur at least 12 months prior to the implementation of the changes to allow market participants adequate time to incorporate changes into future contracts and minimize impacts to current contracts.

¹ Independent Market Monitor Report to the Board, October 2015

http://www.ercot.com/content/wcm/key_documents_lists/76342/6_IMM_Report.pdf

² Memo from Commissioner Anderson to Chairman Nelson Dated August 28, 2013.

http://interchange.puc.state.tx.us/WebApp/Interchange/Documents/40000_451_765682.PDF

³ ERCOT Capacity, Demand, and Reserves Report – December 2015

<http://www.ercot.com/content/gridinfo/resource/2015/adequacy/cdr/CapacityDemandandReserveReport-December2015.pdf>

⁴ ERCOT December 15, 2015 SAWG ORDC Options Analysis

http://www.ercot.com/content/wcm/key_documents_lists/80833/20151216_SAWG_ORDC_Options_Analysis.ppt