NPRR 649 Addressing Issues Surrounding High Dispatch Limit (HDL) Overrides

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<u>NPRR 649 Overview</u>

- Concerns generally centered on: (1) scope of "make-whole" payment for hypothetical lost profits, which would be uplifted to customers, and (2) high implementation cost for infrequent issue.

- Original NPRR had two options, with Option 1 providing a much broader payment than Option 2:

  - ***Option 1*** *would pay the Qualified Scheduling Entity (QSE) for lost "opportunity costs" (i.e., hypothetical profits) relative to its expected Real-Time market position.*

  - ***Option 2*** *attempted to limit payment to the QSE's financial losses by compensating for the <u>lower of</u>: (1) losses in Real Time relative to Day-Ahead Market (DAM) position, or (2) losses relative to expected Real-Time market position, as calculated under Option 1.*

Concerns with NPRR649 Make-Whole Payments

- **No other ERCOT compensation is for lost profits.**
  - "Opportunity costs" are hypothetical profits a generator would have made based on their anticipated dispatch in Real Time. Opportunity costs do not represent actual costs (i.e., financial losses) but hypothetical lost revenues.
  - The ERCOT market has historically avoided paying generators for hypothetical lost profits because (a) it inappropriately shifts operational risk to loads who are unable to anticipate, hedge, or manage it, and (b) it creates gaming opportunities that are difficult to police.
- Consumers concerned with compensating generators for maximum lost profits under Option 1, and proposed a number of safeguards to limit the scope of these payments and the associated uplift.
- The NPRR proponents ultimately rejected most of these safeguards and pursued Option 1 with limited changes relative to the filed version.

Concerns on NPRR649- Make Whole Payments

- Potential consequences of NPRR:
  - Option 1 pays difference between actual dispatch and LMP. Generators can artificially increase compensation for lost profits by lowering offers below what they typically bid or even their actual cost, increasing the delta.
  - Overrides are often predictable, particularly when a condition remains for several days. Allowing a make-whole in this situation could force consumers to pay for multiple days of hypothetical lost profits, even though generator could limit financial risk.
  - Option 2 is more limited but also carries risk of unjustified make-whole payments. For example, Generators can sell into the DAM just to receive over-rides.

Concerns on NPRR649- Make Whole Payments

- Safeguards proposed by consumers to limit make-whole/uplift exposure included verifying actual financial losses through the dispute process to limit payments, and terminating make-whole payments when the constraint could be managed by SCED instead of a manual override or after successive days of overrides.

- The NPRR proponents ultimately rejected most of these safeguards and restrictions and pursued Option 1 with limited changes, drawing opposition from load-serving interests.

Concerns on NPRR649- Implementation Cost

- Secondary concern was high implementation cost of NPRR.

- Proponents worked with ERCOT to reduce implementation cost but it is still estimated at $100 to $125k for relatively rare occurrence.

- Market participants have had concerns over NPRRs with much lower implementation costs that will be applied more frequently, so some were concerned about benefits relative to costs.

Options

- Affirm TAC's recommendation to reject NPRR649.
- Remand to TAC with instructions to limit payment to verified financial losses, with limitations on duration.