

The logo for nrg, consisting of the lowercase letters "nrg" in a bold, black, sans-serif font, followed by a registered trademark symbol (®). To the right of the text is a decorative graphic of various colored squares and crosses in yellow, magenta, and blue, arranged in a pattern that suggests a grid or a stylized map.

NPRR784 Mitigated Offer Caps for RMR Units

Appeal of TAC Decision to the ERCOT
Board of Directors

August 9th, 2016



ERCOT Market Principles

- ERCOT is an “energy-only” market which relies primarily on energy price signals to maintain existing supply and provide incentives for investment in new supply. Locational price signals and system-wide price signals are equally important.
- When an uneconomic generation resource desires to exit the market but is required to remain in operation for the purpose of providing RMR service as specified with Section 3.14.1, it is doing so specifically because of a shortage of supply in that location.
- Mitigating RMR offers and suppressing locational price signals in a supply constrained area conveys the exact opposite economic signal that should be sent; that existing or additional resources are not required.
- RMR Units serve a reliability need and their impact on pricing outcomes and dispatch of other units should be minimized.
- **How to prevent future RMR? Send appropriate price signals.**



NPRR784 Mitigated Offer Caps for RMR Units

- Energy Offer Curves for RMR Units are set to the System-Wide Offer Cap of \$9,000/MWh which recognizes that out-of-market resources should not displace other resources or impact pricing outcomes.
- However, in the vast majority of situations, Energy Offer Curves for RMR Units will be mitigated when the RMR Unit is required to resolve transmission congestion. For example, at current gas prices, the Greens Bayou 5 (GBY5) RMR Unit will have its Energy Offer Curve mitigated to approximately \$50/MWh to \$70/MWh. Other resources have much higher Mitigated Offer Caps (~\$70/MWh to \$225/MWh).
- NPRR784 proposes to increase the Mitigated Offer Caps for RMR Units to ensure that RMR Units are utilized for congestion farther back in the dispatch order and at prices that reflect the presence of an out-of-market unit. Under NPRR784, the Mitigated Offer Cap for GBY5 would increase to approximately \$500/MWh to \$700/MWh.
- An appropriate price signal incentivizes other resources to address the reliability need prior to utilization of the RMR Unit.



Stakeholder Discussion on NPRR784

- Stakeholders were consistently divided when discussing NPRR784. The result of the July 14th, 2016 PRS vote on the motion to approve NPRR784 was 50% in favor (>50% required at PRS). The result of the July 28th, 2016 TAC vote on the motion to approve NPRR784 was 54% in favor (>66.67% required at TAC).
- Most stakeholders support the principle that RMR Units should not be dispatched before other units.
- Most stakeholders support the principle that market solutions are preferred over non-market solutions and that RMR uplift costs should be minimized.
- Most stakeholders agree that sending an appropriate price signal is important but some stakeholders are concerned that the price signal established by NPRR784 is too high.
- After considering stakeholder discussion at PRS and TAC, NRG submitted comments to limit NPRR784 to \$300/MWh as a compromise.