Control Number: 42302

Item Number: 43

Addendum StartPage: 0

ercot
Your Power. Our Promise.

Taylor
2705 West Lake Drive
Taylor, TX 76574
T 512.248.3000
F 512.248.3095

Austin
7620 Metro Center Drive
Austin, TX 78744
T 512.225.7000
F 512.225.7020

ercot.com

RECEIVED
2016 OCT 24 PM 2:51
PUBLIC UTILITY COMMISSION
FILING CLERK

October 24, 2016

Public Utility Commission of Texas
Chairman Donna L. Nelson
Commissioner Kenneth W. Anderson, Jr.
Commissioner Brandy Marty Marquez
1701 N. Congress Ave.
Austin, TX 78711

Re: *PUC Project No. 42302 – Review of the Reliability Standard in the ERCOT Region*

Dear Chairman and Commissioners:

ERCOT submits this letter in response to your request made during the Open Meeting on September 22, 2016, for our input on providing an assessment of the Economically Optimal Reserve Margin (EORM) and the Market Equilibrium Reserve Margin (MERM) for the ERCOT region.

As background, The Brattle Group, Inc. (Brattle), working with Astrapé Consulting, LLC (Astrapé) conducted a study of the EORM and MERM in late 2013 and presented their findings to ERCOT and the Commission in a report filed in PUCT Project No. 40000. Since that time, ERCOT conducted two loss-of-load probabilistic studies (in 2014 and 2016) to comply with a standing data request from the Texas Reliability Entity (TRE) and the North American Electric Reliability Corporation (NERC). ERCOT worked directly with Astrapé to complete these two studies, which used the same modeling framework and many input assumptions comparable to those employed for Brattle's EORM study.

The EORM study performed by Brattle was a first of its kind for the ERCOT region, and the methodology had to be customized to reflect the region's unique energy-only deregulated wholesale market design and region-specific market behavior. As an example, Brattle had to develop a methodology to simulate the recently implemented Operating Reserve Demand Curve (ORDC). This ORDC simulation methodology and other input assumptions designed to account for ERCOT market features will need to be reviewed by ERCOT and stakeholders in order to develop a general consensus regarding the study methodology if the results of future EORM studies are to be used in place of the existing Target Reserve Margin.

Given these considerations, if the Commission requests that ERCOT proceed with evaluating and publishing the EORM and MERM (as well as the associated levels of expected unserved energy) on a regular basis, ERCOT proposes the following actions:

4

1. ERCOT will work with Brattle and Commission staff to conduct one or more workshops with market participants to review the methodology and assumptions used in the original 2013 EORM study and to establish a documented methodology for conducting future EORM studies. ERCOT would expect these workshops to be completed in the first half of 2017.

2. ERCOT will complete the next EORM study based on the documented methodology. ERCOT recommends this analysis be conducted in the second half of 2018 in conjunction with the next loss-of-load analysis required by NERC in order to reduce the aggregate cost of the two studies.

3. After the next EORM analysis in 2018, ERCOT recommends that future EORM analyses be conducted every other year coincident with the loss-of-load studies required by NERC.

4. Also after the next EORM study, ERCOT will amend its market rules as appropriate to account for the change from a target reserve margin based on a one-event in ten years standard to an EORM-based criterion. ERCOT will also modify any related reliability criteria, such as the reference reserve margin for the region used in NERC reliability studies.

5. ERCOT and stakeholders will periodically reassess the EORM methodology as grid conditions change to ensure that the documented process is appropriate.

The Commission also asked ERCOT to provide a cost estimate to conduct these studies. It is difficult to assess these costs at this time, but ERCOT expects that they would not exceed the cost of the initial 2013 Brattle study, given that an initial methodology has been established. In addition, as ERCOT is already conducting a biennial loss-of-load study, the EORM analysis, if conducted at the same time, would only represent an incremental cost above these required studies.

ERCOT hopes that these recommended actions are consistent with the Commission's intent. We will be available at your next Open Meeting or otherwise at your convenience to provide additional information and answer any questions you have.

Respectfully,

Warren Lasher

Warren Lasher
Director, System Planning

By Permission
MM