

TAC Rejection of NPRR 784 - Mitigated Offer Caps for RMR Units

TAC Advocate Presentation
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NPRR 784 Overview

- Today, when there is inadequate competition in a local area due to transmission constraints, all generator offers in that area are mitigated. This is consistent with PUC Subst. R. 25.502(f)(3), which specifically states that “***a noncompetitive constraint will not be treated as a competitive constraint.***” This treatment applies equally to Reliability Must Run (RMR) units, and it always has.
- In competitive scenarios, where transmission is not overly constrained, RMR units are offered at \$9,000/MWh under ***either*** the status quo or NPRR 784.
- Under current mitigation practices, Greens Bayou 5 (GBY5) would be offered at around \$50-\$60/MWh. When it is offered at that price, ***it will be used solely to resolve congestion caused by a temporary lack of transmission into Houston***—not for overall system capacity.
- NPRR 784 would instead require all RMR units, including GBY5, to be offered at the ***highest possible price*** that would still allow SCED to dispatch the unit for congestion in noncompetitive situations. This is in the ***\$600-800/MWh range*** for GBY5.
- When GBY5 is used for congestion, this price would be paid to ***all generators in the area.***

NPRR 784 is inconsistent with the ERCOT market design.

Punitive to Loads.

Customers should not be exposed to scarcity pricing without a valid purpose. The GBY5 RMR is temporary and will only be in place until the Houston Import Project is built. Pricing it at exorbitant prices serves no valid purpose—resource adequacy or otherwise. No resources will be developed or kept online purely in response to these temporary high prices. Customers are paying more than \$60 million for the Greens Bayou 5 RMR unit to maintain local reliability until the Houston Import Project is in service. Customers should not be forced to pay \$600-800/MWh (to the RMR unit and all other generators in the area) to use the unit for local reliability.

Rewards Efforts to Balkanize the ERCOT Market.

Generators do not build significant new generation in load pockets based on localized congestion pricing. This is because significant new generation will eliminate those profits. ERCOT has, therefore, historically planned robust transmission to facilitate overall resource adequacy by promoting competition and incentivizing new build based on market fundamentals. NPRR 784 would reward generators for fighting transmission and Balkanizing the market by using RMR units to provide scarcity pricing for other local generation. This would allow generators to do with an RMR unit what they could not do otherwise because of market power protections.

Unduly Limits ERCOT's Ability to Use the RMR to Maintain Reliability.

NPRR 784 also precludes an GBY5 from being used to solve any constraint other than Singleton-Zenith. GBY5 was put under an RMR contract to solve multiple other constraints. NPRR 784 would prevent loads from getting the fair value of the contract and limit ERCOT's ability to use the unit to maintain reliability.

There is no valid justification for NPRR 784

1. NPRR 784 does not support resource adequacy objectives.

- GBY5 is an RMR for local reliability, not system-wide capacity. Local RMR is a temporary substitute for transmission. If there were adequate import capability into Houston, there would be no need for the RMR because customers would have access to ample generation from outside the Houston Zone. It is inappropriate to treat the RMR like an ancillary service unit or allow it to set scarcity prices in non-competitive circumstances.
- The Houston Import Project is already the “exit strategy” for the GBY5 RMR. Using the RMR to set high prices in Houston between now and 2018 will not incentivize new resources because a transmission solution is already in process. Customers should not be punished with high prices purely due to the lead time on new transmission.
- High prices in Houston suppress prices in the North Zone, which undermines signals to develop new resources outside of Houston. This is much more detrimental to overall resource adequacy. Generation is built based on market fundamentals, not transient high prices in a load pocket.

There is no valid justification for NPRR 784

2. NPRR 784 is inconsistent with ERCOT's scarcity pricing regime.

- When there is insufficient competition we do not allow out of market pricing. Again, PUC Subst. R. 25.502(f)(3) specifically provides that noncompetitive transmission constraints shall not be treated as competitive. Customers have always been protected by offer mitigation in this situation.
- NPRR 784 only applies in non-competitive situations by definition. RMR units are dispatched last (and at \$9,000/MWh) when there is adequate competition and the unit is being dispatched for system capacity.
- NPRR 784 is an effort to inappropriately create scarcity pricing in a non-competitive situation that does not promote system-wide resource adequacy, but rewards generators for perpetuating load pockets and Balkanization of the grid.

There is no valid justification for NPRR 784

3. NPRR 784 is not necessary to minimize RMR run-time and uplift.

- The RMR contract already limits the periods where GBY5 can be used, effectively minimizing the overall cost to customers.
- There has been no analysis to show that running the unit less often and at a higher price will maximize revenue offsets for the RMR contract. Running the unit more often, and at a lower price, could provide a greater revenue offset.
- Even if there were significant benefits, those could be obtained through other methods of dispatching the RMR unit last. It is not necessary to price the unit at \$600-800/MWh.

CONCLUSION:

- PRS and TAC both rejected NPRR 784. The ERCOT Board should give weight to this important stakeholder input.
- The RMR protocols are being holistically reviewed. Any issues related to the proper pricing of RMR units will be revisited through those discussions.
- The Board should reject NRG's appeal.