

Position Statement in Opposition of NPRR784

This statement is jointly filed by Luminant Energy Company, LLC, Rayburn Country Electric Cooperative, South Texas Electric Cooperative and Texas Industrial Energy Consumers, referred to collectively herein as “Commenters.”

The reliability must run (RMR) contract for Greens Bayou Unit 5 (GBY5) is best characterized as a generation deliverability issue, rather than a generation adequacy issue. ERCOT’s analysis for 2016 and 2017 summer peak conditions showed reliability violations in the study area and that GBY5 is required to support the system reliability. The Houston Import Project (projected in-service for peak summer conditions in 2018) resolves the reliability violations. If timing were perfect and the Houston Import Project were already in service, GBY5 would be allowed to suspend operations, as economics have indicated it should, because it is not needed for overall system capacity.

Because GBY5 is being contracted for RMR to address transmission reliability issues, not capacity issues, we should expect that most of the time when GBY5 is committed, it will be for the purpose of relieving local congestion in the Houston area. The majority of transmission overloads that were identified in ERCOT’s RMR study have historically been non-competitive constraints that are part of the North to Houston interface. When a unit with a significant shift factor impact is dispatched to resolve a non-competitive constraint, the unit will likely be dispatched based on its Mitigated Offer Cap (MOC). MOCs are defined for each resource based on their marginal costs and their historical capacity factors. The Independent Market Monitor (IMM) has filed comments indicating that GBY5’s MOC is between \$50-\$70/MWh. If GBY5 were dispatched with this MOC, it would not have a material impact on energy prices going forward. However, NPRR784 proposes to change the MOC for an RMR unit solving a non-competitive constraint by setting the MOC at a level that is the highest possible value that would allow the unit to still be dispatched by Security Constrained Economic Dispatch (SCED), rather than a value that is reflective of the unit’s costs. According to the IMM’s comments, for GBY5, this MOC would be in the range of \$500-\$700/MWh.

The ERCOT Protocols are already clear that if an RMR unit is dispatched for capacity, or to resolve congestion that has a competitive solution, the unit will be priced at the system-wide

offer cap. This rule is in place to ensure that an RMR unit is only dispatched as the final solution to a capacity shortage and to ensure that if it is dispatched in that situation, it is setting price at a level that reflects that scarcity. This is how GBY5 will be priced when it is used for capacity or to resolve congestion that has a competitive solution, regardless of whether NPRR784 passes or is rejected. Moreover, when ERCOT commits the RMR unit, the MWs at the low sustained limit are price taking, and those MWs are re-priced through the Reliability Deployment Price Adder mechanism. Consequently, under the existing Protocols, RMR deployments will not dampen ERCOT price formation during periods of extreme scarcity.

The rationale offered for NPRR 784 is to price GBY5 in such a way to ensure that it is not dispatched ahead of any other unit in the market to resolve congestion, and to do so at the highest possible price, to encourage scarcity pricing in the Houston area when the RMR unit is dispatched. Commenters oppose NPRR784 for several reasons. First, because the MOC of a unit is used for pricing and dispatch only when the unit is solving a constraint that has been deemed to be non-competitive, Commenters dispute the premise of the NPRR that it is needed to replicate a more market-oriented outcome. By definition, an MOC is used when there is no competitive solution to resolve local congestion. Moreover, Commenters disagree with the assertion that local congestion is evidence that there is scarcity of generation in a local area. It is instead the case that there is scarcity of transmission capacity that will allow generation outside of the local area to be dispatched to serve load. Artificially creating scarcity pricing in this situation is unlikely to result in any additional generation investment unless conditions in the market as a whole indicate the need for more generation.

Second, the IMM's written statement that an RMR contract may be an indication that the market has failed to provide sufficient revenue to a needed resource might be true, but we disagree that that NPRR784, structured as a one-off modification for RMR units, is an appropriate solution. In fact, GBY5 has been used for a number of years to resolve the non-competitive constraints identified in ERCOT's RMR study, and, in doing so, has been mitigated according to well-established ERCOT pricing rules for non-competitive constraints, which were revised through the stakeholder process in 2013 with broad market support. If this is a concern, a better approach would be to more broadly study system constraints and whether the market design is facilitating appropriate price signals for generators. The issue of system constraints and sending the right

price signal to choose between a generation or transmission solution is important and the issue should be reviewed holistically. Singling out one RMR resource to try to drive higher congestion prices in Houston does nothing to address whether or why prices in Houston were not high enough to allow GBY5 to continue to profitably operate. NPRR 784 does not adequately address the potential system-wide matter that has far-reaching implications and ignores the actions the market is already taking to alleviate the broader congestion issues in the Houston market. Proposed market design changes should be carefully reviewed and fully vetted, and any approved changes should clearly improve the competitive market, should address the potential for market abuses, and should consider impacts on consumers. It is too late to address the Houston Import constraint by increasing congestion prices in Houston. NPRR784 would penalize Houston customers, who will have to pay high congestion prices in addition to their share of the RMR costs and the Houston Import Project that is already approved as an exit strategy for the GBY5 RMR in 2018.

Third, Commenters appreciate that there can be benefits to deploying RMR units after other resources, but NPRR784 goes well beyond that policy, by manually setting the offer at the highest price that can reliably be deployed. The NPRR's focus has been on the Singleton to Zenith 345kV constraint, which has a shadow price cap of \$4500 and upon which GBY5 has a very high shift factor impact. However, there are other overloads identified in ERCOT's RMR study that GBY5 would help to solve, for which it will not be dispatched if the MOC is set in reference to the Singleton to Zenith constraint. Moreover, the goal of dispatching GBY5 after other units could be accomplished at a much lower MOC price, by analyzing the units that are available to resolve the constraints, and calculating the LMP that would be needed to dispatch those units ahead of GBY5, and basing GBY5's MOC on that price. Such a solution could either be implemented through a system change that employs inputs already available and used by the constraint competitiveness test to dynamically calculate an MOC price for the RMR unit based on each constraint in Real-Time, or it could be done manually, with conservatively estimated values to address expected Real-Time conditions, similar to how NPRR784 is proposed to be implemented.

For these reasons, Commenters request that the ERCOT Board reject NRG Texas LLC and Reliant Energy Retail Services LLC's appeal of NPRR784.