ERCOT Board of Directors
September 18, 2012

Requirements

§ 25.502 - Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas.

(f) Noncompetitive constraints. ERCOT, through its stakeholder process, shall develop and submit for commission oversight and review protocols to mitigate the price effects of congestion on noncompetitive constraints.

> (1) The protocols shall specify a method by which noncompetitive constraints may be distinguished from competitive constraints.
> (2) Competitive constraints and noncompetitive constraints shall be designated annually prior to the corresponding auction of annual congestion revenue rights. A constraint may be redesignated on an interim basis.
> (3) The protocols shall be designed to ensure that a noncompetitive constraint will not be treated as a competitive constraint.

Section 3: Management Activities for the ERCOT System

3.19   Constraint Competitiveness Tests

(1) The Technical Advisory Committee (TAC) shall consider the results of the Constraint Competitiveness Tests (CCTs) and other relevant factors in reaching its determination as to whether or not a Transmission Element pair should be determined to be a Competitive Constraint. Any contingency/limiting Transmission Element pair not designated as a Competitive Constraint shall be deemed to be a Non-Competitive Constraint.

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Additional Tests

3.19.2 Monthly Competitiveness Test

(1) Unless otherwise approved by TAC as a Competitive Constraint, the Monthly Competitiveness Test shall change the treatment of a Competitive Constraint to a non-competitive constraint for the particular month if the constraint meets the following conditions:

(a) The ECI is greater than 2,500 on the import side or the ECI is greater than 3,000 on the export side. The ECI is determined using the same procedure as the Annual Competitiveness Test but applied to the particular month only; or

(b) There is a pivotal player in resolving the constraint, which occurs when the constraint cannot be resolved by eliminating all Available Capacity on the import side, except Nuclear capacity and Minimum-energy amounts of Coal and Lignite that is Managed Capacity by any one Entity and its Affiliates during the peak case of the month.

3.19.3 Daily Competitiveness Test

(1) Based on the set of the Competitive Constraints as determined in the Monthly Competitive Test, the Daily Competitiveness Test shall change the treatment of a Competitive Constraint to a non-competitive constraint for the particular day if the constraints meet the following conditions:

(a) The ECI is greater than 2,500 on the import side or the ECI is greater than 3,000 on the export side. The ECI is determined using the same procedure as the Annual Competitiveness Test but applied to the peak hour of the particular day; or

(b) There is a pivotal player in resolving the constraint, which occurs when the constraint cannot be resolved by eliminating all Available Capacity on the import side, except Nuclear capacity and Minimum-energy amounts of Coal and Lignite that is Managed Capacity by any one Entity and its Affiliates during the peak hour of the day.

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2013 Competitive Constraints (Vote)

ECI Threshold Option			ECI Threshold [2000,2500]					
Overload Flag Check Option			Option 1		Option 2		Option 3	
Constraint Set	Model	Comp. or Non-Comp.	Count	Pctg	Count	Pctg	Count	Pctg
SCED Historical	CRR Auction	Competitive	961	64.8%	34	2.3%	17	1.1%
		Non-Competitive	521	35.2%	1448	97.7%	1465	98.9%
CSC/CRE	CRR Auction	Competitive	519	78.2%	202	30.4%	28	4.2%
		Non-Competitive	145	21.8%	462	69.6%	636	95.8%

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TAC Action

- TAC approved the modified Option 3
    - the list of Competitive Constraints for 2013 as identified by the modified Option 3 methodology, which deems a constraint to be competitive if it is competitive in either the August 2013 or April 2013 Congestion Revenue Rights (CRR) case.

- Under the competitive constraint test approved by TAC in September, 92% or 1,974 of the 2,146 constraints in ERCOT are deemed non-competitive.

- The modified Option 3 leaves only 172 constraints in the ERCOT region designated as competitive.

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IP-GDF Suez Request

- IPR GDF SUEZ Energy Marketing NA (IP-GSEMNA) respectfully requests that the Board reverse the TAC Action and institute the proposal identified as Option 1 as modified which deems a constraint to be competitive if it is competitive in either the August 2013 or April 2013 Congestion Revenue Rights (CRR) case.

- Option 1 designates approximately 1,480 constraints as competitive for the annual list.

Benefits of Option 1

- Once a constraint is designated as noncompetitive on the annual list it retains that designation throughout the year

- Using Option 1 allows for the Monthly and Daily tests to re-designate the competitive constraints on the annual list as noncompetitive as necessary, therefore, no constraint designated as competitive on the "Annual List" can be treated as such if the monthly or daily test determines the constraint to be noncompetitive.

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Conclusion

- Since Nodal Go-Live, ERCOT has designated Commercially Significant Constraints/Closely Related Elements competitive. This resulted in approximately 664 constraints being designated as competitive.

- We believe that the current competitive constraint designations result in over-mitigation of prices and present a barrier to the formation of competitive price signals needed in an efficient market.

- We believe that both the test for competitive constraints and the current list of competitive constraints need to be modified to relieve the over-mitigation of pricing that is occurring.

- Option 1 allows the most number of constraints to be treated as competitive when they are competitive and treated as non-competitive in those periods when they are non-competitive; thus limiting the over mitigation in the market.

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