# STEC POSITION STATEMENT

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# STEC Appeal

STEC believes that in instances in which Security Constrained Economic Dispatch (SCED) irresolvable congestion is identified and meets the defined threshold requirements, excessively high Shadow Prices provide little to no value in either relieving the constraint or incenting new generation. This is especially true in situations where a transmission project has been identified which will correct the constraint.

# JUSTIFICATION OF STEC PROPOSAL

# Justification – 1

Adequate price signals for markets are important to induce corrective market action if the cost is justified and a feasible action can be implemented by the market.

# Justification – 2

Adequate price signals behind the constraint allow the market and participants to respond to:

- Incent load to reduce by offering into SCED
- Incent new generation to locate and construct
- Justify new transmission construction in the needed locations
- Keep existing generators feasible

# Justification – 3

When transmission line expansion is pending construction to relieve an irresolvable constraint for economic or reliability reasons, then the price signal importance diminishes significantly. For instance:

- Transmission line expansion is already justified
- New generation will not build for 2-3 years of revenue
- Load behind the constraint currently cannot offer into SCED
- Keeping existing generation behind the constraint can be handled similar to Reliability Must Run (RMR) if necessary

# Justification – 4

## Why is STEC concerned?

- Serious winter events similar to the February, 2011 event could cost considerably more.

  Approximately $80 million last February on 7.3 hours of SCED irresolvable congestion. This would have been much higher had ERCOT not intervened after the seventh hour and thus allowed SCED to continue to attempt to resolve the irresolvable constraint.

  Approximately $200 - $240 million dollars if WMS/TAC proposal were in effect during the February 2011 irresolvable period.

# Justification – 4 (cont'd)

## Why is STEC concerned?

- Over the last three years, instances in which actual power flow is in excess of the Valley Import limit has been growing at a rate of 6 – 10 hours per year. This trend is expected to continue with load in the Valley area projected to grow at an annual rate of approximately 4%.
- Through March 8, 2011, hours in which actual flow is in excess of the Valley Import limit, excluding the February event, is 23.25 hours. Most of these hours were irresolvable by SCED.

# Justification – 4 (cont'd)

## Why is STEC concerned?

- Outages of existing transmission for projected transmission expansion are likely to increase hours of irresolvable SCED congestion.
- 25 hours of irresolvable SCED congestion for the Valley constraint is not unreasonable for the next few years, especially with any load growth in the Valley.
- Cost of 25 hours of SCED irresolvable congestion for the first year is estimated at approximately $158 to $224 Million depending on when the trigger mechanism is met.

# Justification – 4 (cont’d)

## Why is STEC concerned?

- Cost in subsequent years is estimated to be approximately the same for the WMS/TAC method whereas the cost in subsequent years for the STEC proposal is estimated to be approximately $18 to $30 Million depending on when the trigger mechanism is met.
- New generation (controllable) is not expected to be built in the Valley.
- Loads are unable to offer into SCED to relieve congestion.

# STEC PROPOSED REMEDY

# Proposal – Modify Section 3.6.2

Section 3.6.2:

Methodology for Setting the Constraint Shadow Price Cap for a Non-Competitive Constraint That is Irresolvable In SCED

# Proposal – Modify Section 3.6.2

Exceptions to this methodology shall be as follows:

(i) In instances where there are identified transmission projects to address a non-competitive constraint that is irresolvable in SCED that meets the trigger conditions in 3.6.1, the Shadow Price Cap shall be set in accordance with this section 3.6.2 subject to the $95,000/MW net margin threshold and neither the Shadow Price Cap nor the net margin value shall be reset until ERCOT deems the constraint resolvable by SCED until at least one of the following conditions are met:

# Proposal – Modify Section 3.6.2

(i)

(1) Completion of the necessary identified transmission projects

(2) Sufficient new Generation Resources are constructed and placed in service with a negative shift factor relative to the SCED irresolvable constraint, or

(3) Load is allowed to offer into SCED that has an opportunity to receive LMPs comparable to those of Generation Resources of similar shift factors and ERCOT, in its sole judgment, estimates there is sufficient Load located behind the constraint which is capable of offering into SCED and which meets the ERCOT requirements to participate in SCED.