

Date: February 28, 2022
To: ERCOT Board of Directors
From: Clif Lange, Technical Advisory Committee (TAC) Chair
Subject: High System-Wide Offer Cap (HCAP) Parameter Change - Alignment with Public Utility Commission of Texas (PUCT) Direction on the Operating Reserve Demand Curve (ORDC) Design

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: March 7-8, 2022

Item No.: 4.2

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve a change to the HCAP value from \$9,000/MWh to \$5,000/MWh to align with P.U.C. SUBST. R. 25.505, Reporting Requirements and the Scarcity Pricing Mechanism in the Electric Reliability Council of Texas Power Region.

Background/History:

At open meetings in December 2021, the PUCT approved an amendment to P.U.C. SUBST. R. 25.505 lowering the HCAP from its current value of \$9,000/MWh to a value of \$5,000/MWh, effective January 1, 2022.

As specified in paragraph (1) of Protocol Section 4.4.11, the ERCOT Board is required to approve the HCAP parameter following a recommendation by TAC:

- (1) The SWCAP shall be determined in accordance with the Public Utility Commission of Texas (PUCT) Substantive Rules. The methodology for determining the SWCAP is as follows:
 - (a) The Low System-Wide Offer Cap (LCAP) is set at \$2,000 per MWh for energy and \$2,000 per MW per hour for Ancillary Services.
 - (b) At the beginning of each year, the SWCAP shall be set equal to the High System-Wide Offer Cap (HCAP) and maintained at this level as long as the Peaker Net Margin (PNM) during a year is less than or equal to the PNM threshold per MW-year. If the PNM exceeds the PNM threshold per MW-year during a year, on the next Operating Day, the SWCAP shall be reset to the LCAP for the remainder of that year.
 - (c) ERCOT shall set the PNM threshold at three times the cost of new entry of new generation plants.

The above parameters are defined as follows.

Parameter	Unit	Current Value*
HCAP	\$/MWh	9,000
PNM threshold	\$/MW-year	315,000

* The current value for the parameters referenced in this table above will be recommended by TAC and approved by the ERCOT Board. ERCOT shall update parameter values on the first day of the month following ERCOT Board approval unless otherwise directed by the ERCOT Board. ERCOT shall provide a Market Notice prior to implementation of a revised parameter value.

On January 31, 2022, TAC unanimously voted via roll call to recommend approval of the change to the HCAP Parameter in Protocol Section 4.4.11 from \$9,000/MWh to \$5,000/MWh.

Key Factors Influencing Issue:

The PUCT approved lowering the HCAP from its current value of \$9,000/MWh to a value of \$5,000/MWh, effective January 1, 2022.

Conclusion/Recommendation:

As more specifically described above, TAC recommends that the Board approve the change to the HCAP parameter in Protocol Section 4.4.11 from \$9,000/MWh to \$5,000/MWh.

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, paragraph (1) of Protocol Section 4.4.11, System-Wide Offer Caps, requires the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) to review and approve the value of the High System-Wide Offer Cap (HCAP) parameter;

WHEREAS, the Technical Advisory Committee (TAC) has recommended that the Board approve a change to the HCAP parameter in Protocol Section 4.4.11 from \$9,000/MWh to \$5,000/MWh; and

WHEREAS, the after due consideration of the alternatives, the Board deems it desirable and in ERCOT's best interest to approve a change to the HCAP parameter in Protocol Section 4.4.11 from \$9,000/MWh to \$5,000/MWh as recommended by TAC;

THEREFORE be it RESOLVED, that the change to the HCAP parameter in Protocol Section 4.4.11 from \$9,000/MWh to \$5,000/MWh is hereby approved.

CORPORATE SECRETARY'S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its March 7-8, 2022 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of March 2022.

Jonathan M. Levine
Assistant Corporate Secretary