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| NPRR Number | [1092](http://www.ercot.com/mktrules/issues/NPRR1092) | NPRR Title | Reduce RUC Offer Floor and Remove RUC Opt-Out Provision |
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| Market Segment | | Consumer, Municipal | |

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| Comments |

As discussed in further detail below, the Joint Consumers (and CPS Energy) have serious concerns about continuing to price Reliability Unit Commitment (RUC) deployments at $1,500/MWh, given: (a) the Independent Market Monitor’s (IMM’s) recommendations on this issue, (b) the increased ability for a unit owner to anticipate being RUC’ed under current operations, where substantial capacity is being routinely committed through RUC, (c) outdated voluntary mitigation plans (“VMPs”) that may allow unit owners to exercise market power in ways that were not intended at the time of adoption due to intervening market design changes, and, relatedly (d) more aggressive administrative pricing through the Operating Reserve Demand Curve (ORDC) and the Reliability Deployment Price Adder (“RDPA”) that can be triggered by RUC. Joint Consumers believe that under current practices, the RUC offer floor should be at a price where most units would self-commit, and not at a price that creates a penalty for the market when RUC units are deployed or unnecessarily withholds available capacity. Joint Consumers are open to further discussion on the specific price point. Other market design features may need to be revisited if current RUC practices continue, such as outdated VMPs and the practice of removing RUC capacity from the ORDC.

RUC Policy Background

* + Consumers and Retail Electric Providers (REPs) worked closely on the RUC market design during Nodal implementation to assure proper incentive alignment with market objectives.
  + RUC allows ERCOT to secure additional capacity if Current Operating Plans (COPs) submitted by generators are insufficient. The RUC design tries to efficiently minimize generator commitment while meeting system needs. The RUC design guarantees that generators can recover their costs, encourages them to participate in Day-Ahead planning via Day-Ahead Market (DAM) submissions, and encourages them in Real-Time to accurately show their plans in the COP.
  + The RUC “clawback” removes some or all revenues above verified costs. This was not meant as a penalty, but as an incentive for generators to self-commit to minimize the use of RUC. Similarly, the costs of RUC are first assigned to Loads that bring insufficient capacity to the market (called “capacity shorts,” using installed capacity for dispatchable generation and wind/solar forecast for renewables) before any excess costs are uplifted to all loads on a Load Ratio Share (LRS).
  + The RUC process was originally designed to provide a strong incentive for generators to commit their Resources, thereby avoiding having a “power pool” function, defined as an avoided scenario where ERCOT would make commitment decisions and take on commitment risk on behalf of Consumers instead of each generator taking on commitment risk on their own. However, the process let ERCOT have the final say if the market failed to provide sufficient capacity.
  + Before Nodal implementation in 2010, stakeholders and ERCOT worked on Protocol language to modify RUC commitment, resulting in NPRR207, Unit Deselection, which encouraged ERCOT to delay RUC instructions to give generators more time to self-commit their Resources. Shifting commitments earlier in the day may give ERCOT Operators more confidence, but deferring commitment decisions based on generator startup time gives generators more time to make market-based commitment decisions based on up-to-date information.
  + In 2011 and 2012, generators proposed to remove RUC claw backs, which would have removed the incentive to self-commit. After months of debate, the opt-out was introduced in NPRR416, Creation of the RUC Resource Buyback Provision. This allowed unit owners to opt-out of the RUC process, foregoing make-whole payments if the units are not “in the money” but allowing the owner to retain any profits during the commitments.
  + In 2012, the RUC offer floor was initially set at $9,000 in NPRR435, Requirements for Energy Offer Curves in the Real Time SCED for Generation Resources Committed in RUC, although Industrial Consumers argued unsuccessfully for setting the offer floor equal to the Non-Spinning Reserve (Non-Spin) offer floor. After implementation of the ORDC and other significant market changes, Market Participants later agreed to reduce this to $1,500 at the time RDPA was implemented. A decade later, following many material market changes that are designed to increase prices further from scarcity and encourage additional self-commitment, the NPRR626, Reliability Deployment Price Adder, compromise is now outdated.
    - This is shown by the dramatic impact of RDPA on prices during February 24th, 2022. ERCOT’s conservative approach to operations, when combined with the administrative pricing around RUC, is causing unintended outcomes that facilitate market power and are harmful to consumers.
    - This February, the RDPA calculation “assumed” that generation would not self-commit but would instead be committed by RUC instruction, removing all such capacity from the ORDC. When combined with recent changes to make the ORDC pricing higher at higher levels of reserves, this causes unjustified price increases. This further exacerbates the RUC commitment decision, as incentives for commitment are no longer aligned with market objectives; in other words, Market Participants now can gain substantial revenues by allowing ERCOT to commit some of their units through RUC, setting very high prices for other units within the same fleet. Refraining from self-commitment can have a bigger impact on prices – a classic market power concern; when large generator companies with pivotal market power choose to withhold some capacity and revenue from that capacity to raise overall prices enough to increase revenue from all of their other generators or trading positions.
  + This issue is further exacerbated by outdated VMPs that were designed nearly ten years ago, many before the advent of the ORDC, and sanction behavior that may be used to influence prices under the current market design. Many of the VMPs don’t consider the impacts of ORDC, an issue that is ripe for re-examination by the Public Utility Commission of Texas (PUCT) based on today’s ORDC expectations. Many of the offer curves in these mitigation plans allow generators to offer to sell at very high prices for a small portion of their capacity and exercise “a little” market power to have overall prices reflect low reserves. With the advent of ORDC and reserve pricing, this is probably no longer necessary.
  + Finally, we hope that the ORDC curve will provide sufficient commitment incentives so that RUC is not needed as frequently. However, RUC pricing *should never be part of a commitment decision; it only results in outcomes inconsistent with market objectives.*

Perspective on NPRR1092

* + Joint Consumers give substantial weight to the IMM’s opinion as it relates to potential exercises of market power. This is the IMM’s core responsibility. As part of that role, the IMM filed NPRR1092. As the NPRR addresses existing and current market power concerns, it should be approved and implemented quickly, before the coming summer.
  + Joint Consumers believe effective market power can be exercised today by Qualified Scheduling Entities (QSEs) in the RUC process due to ERCOT’s conservative approach to operations which results in RUC being used more aggressively than when these policies were first developed. The frequency of RUCs allows a Market Participant to determine if there is a benefit to being RUC’ed and being “forced” to offer at a high offer price without violating any VMPs. A Market Participant may be able to anticipate a RUC instruction, using the expected instruction to its advantage. This opportunity is exacerbated by the RUC “opt-out” process.
  + Joint Consumers recognize generator concerns about RUC units undercutting competitive offers. However, if generators self-commit sufficient capacity to serve the forecasted Load, no undercutting should occur. There is a long history of compromise over RUC. However, as long as RUC continues to be used the way it currently is by ERCOT, the current policy will not create sufficient incentive for self-commitment, resulting in opportunities for generators to cause adverse pricing outcomes.
  + Joint Consumers also recognize that different generators use RUC “opt-outs” in different ways. While some generators use this to avoid having to make commitment decisions themselves and instead wait for ERCOT studies to do so, like in a centrally dispatched power pool, others use it for swing risk. When ERCOT sends RUC instructions too soon, it increases the difficulty of generators in making self-commitment decisions. RUC should be delayed as long as possible to encourage self-commitments, while still maintaining reliability. The 2019 State of the Market Report recommends removing opt-out.
    - Joint Consumers support the IMM’s recommendation. However, there should be a way to buy back/opt-out if ERCOT commits the RUC generator far in advance of its start-up time instead of deselecting it. Ultimately, deselection should occur more frequently and be required by **amending paragraph (3) of Section 5.5.2, *Reliability Unit Commitment (RUC) Process*,** to tighten the requirements allowing ERCOT to deselect a unit and **retaining portions of paragraph (14) of 5.5.2** to allow opt-out under much more limited circumstances.
* There is also a perverse incentive here that merits further consideration outside this NPRR. If a generator holds back on its self-commitment in favor of seeing many RUCs or by not giving ERCOT good information in their COP submittals, any RUC’ed generators are also removed from the ORDC calculation and added to the RDPA total. This process creates an incentive for that generator to pursue a windfall on higher ORDC/RDPA prices for its other plants that may be in service even when large amounts of reserve are actually On-Line and available for dispatch.
  + The accuracy of submittals to the ERCOT COP has long been a major problem for ERCOT studies. COP accuracy is potentially a root cause of this windfall opportunity.
  + This same incentive structure promotes generation companies to obviate their VMPs for generation plants that have market power. Resolving these incentives are a longer-term challenge, which could result down the road in OBD amendments to the Methodology for Implementing Operating Reserve Demand Curve (ORDC) to Calculate Real-Time Reserve Price Adder when the PUCT reconsiders ORDC following the approach discussed in the Phase 1 ERCOT memo and amendments to 6.5.7.3.1, Determination of Real-Time On-Line Reliability Deployment Price Adder.
* While Joint Consumers are reluctant to raise the proposed offer floor of $75 due to ongoing market power concerns, Joint Consumers could be comfortable with slightly higher numbers designed to replicate the prices where a RUC unit would otherwise self-commit.
  + Joint Consumers are also open to the suggestion that an energy offer floor be indexed to the price of natural gas multiplied by a heat rate factor between 15 and 20 -- well over the heat rates of any likely generation units to be RUC’ed.
  + To avoid gas market concerns raised by Commissioners, the gas price in this calculation could be a two-month rolling average. These proposals would result in amendments to paragraph (4)(e) of Section 6.5.7.3, Security Constrained Economic Dispatch.
* Joint Consumers are open to considering returning to a $1,500/MWh offer floor in the future if ERCOT were to restore its prior RUC approach, where RUCs are rare and do not contribute to inappropriately raising the price adders even when reserves are sufficient. Therefore, Consumers would support creating an annual metric by amending Section 5.8, Annual RUC Reporting Requirement, to score ERCOT's RUC instructions for use in future market design decisions about the offer curve. For the market to function, Joint Consumers believe that RUCs must ultimately be reduced. The current ORDC changes were designed to ensure sufficient self-commitment, but instead substantial capacity is still being RUC’ed. Joint Consumers are unclear as to whether this is a timing or informational issue, but the combination of the ORDC price increases with ERCOT’s current RUC practices are causing substantial unintended consequences.

If these ideas gain traction at the workshop, Joint Consumers will file amended NPRR language in subsequent comments.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None