



Item 8.3.1: ERCOT Staff Response to Independent Market Monitor State of the Market Report Recommendations

Kenan Ögelman

Vice President, Commercial Operations

Reliability and Markets Committee Meeting

ERCOT Public

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Overview

- **Purpose**

Update the Reliability and Markets (R&M) Committee on the Independent Market Monitor (IMM) “State of the Market Recommendations.”

- **Voting Items / Requests**

No action is requested of the R&M Committee or Board; for discussion only

- **Key Takeaways**

- Thirteen recommendations of which five are new.
- Implementation of Real-Time Co-optimization (RTC) remains a top priority.
- Most but not all recommendations are possible to implement within the stakeholder process. Some require Public Utility Commission of Texas (PUCT) action.

New Recommendations

- Implement a multi-interval Real-Time Market.
 - A software tool where ERCOT looks ahead at system conditions and makes binding, optimized, forward dispatch.
 - The value proposition was studied in 2017 and a decision was made to prioritize Real-Time Co-optimization.
- Institute 100% Reliability Unit Commitment claw-back.
 - Currently if a unit makes an offer in the Day-Ahead Market, the claw-back is either eliminated or reduced. IMM argues this feature should be eliminated.
- Allow transmission reconfigurations for economic benefits.
 - Expand constraint management schemes to manage congestion as well as reliability.

New Recommendations

- Change the linear ramp period for Emergency Response Service (ERS) summer deployments to 3 hours.
 - The current system assumes ERS deployments return after 4.5 hours and there is a price adjustment during this time period. For summer deployments only the return time should be reduced to 3 hours.
- Change the historical lookback period for ORDC mu and sigma calculations.
 - The base assertion is that: the last 5 years are a better indicator of reliability conditions driving ORDC variables than the full historical data that currently drives the calculation of the ORDC variables. Therefore, the values should be calculated on the most recent 5 years.

• Key Takeaways

- ERCOT agrees that the recommended solutions provide efficiency improvements.
- Prioritization is critical because all proposed improvements cannot be implemented simultaneously with all the other requirements currently under consideration.

Legacy Recommendations that have prior PUCT rulings

- Eliminate the “small fish” rule
 - This rule provides for smaller generation entities to be exempt from having ERCOT-wide market power.
- Modify the allocation of transmission costs by transition away from the Four Coincident Peak (4CP) method.
 - Summer load-peak is no longer the driver for transmission projects.

Key Takeaway: ERCOT cannot initiate these changes without instruction from the PUCT.

Recommendations currently being addressed

- Real-Time Co-optimization is a project we restarted in June.
- Implement an uncertainty product.
 - Dispatchable Reliability Reserve Service (DRRS) is intended to be an uncertainty product. It does not have all the components described, but that is primarily driven by time constraints.

Recommendations that have no current action

- Reevaluate net metering at certain sites.
 - Currently ERCOT rules allow co-location of resources and load behind the joint interconnection point. In this instance the load only pays for transmission, ERCOT fees and Ancillary Services for its consumption from the grid not the total load.
- Implement smaller Load Zones.
 - To better price congestion to load (and resources receiving the Load Zone price). Improves congestion management.
- Implement a fee for Point-to-Point Obligations.
 - Large volumes of these hedging instruments can slow down clearing the Day-Ahead Market. ERCOT has managed this issue by other means, however a fee may be needed in the future.

Recommendations that have no current action

- Exclude fixed costs from mitigated offer caps.
 - Low-capacity factor units have multipliers raising offer caps that would not be considered marginal cost.
- Price Ancillary Services based on the shadow price of procuring each service.
 - Load Resources providing Responsive Reserve Service do not have a role in price formation. This recommendation proposes to change that condition.

Key Takeaway: Again, prioritization is critical because all proposed improvements cannot be implemented simultaneously with all the other requirements currently under consideration.