



Item 5.2: Independent Market Monitor (IMM) Report

Jeff McDonald, Ph.D.
VP Potomac Economics and
ERCOT IMM Director

Board of Directors Meeting

ERCOT Public
April 7-8, 2025

Market Revenue and Resource Adequacy

- ERCOT has identified short-term and medium-term resource adequacy concerns.
- Both require the market to indicate a need through higher prices... markets need to experience shortage in order to provide price signals that may elicit a response (performance, new investment).
- Short-term: anticipated shortages may be addressed via performance in response to higher shortage prices.
- Medium-term: spot market prices shortages that it experiences ... Resource adequacy concerns in the future will not trigger shortage pricing in the spot market.
 - Forward contracts outside of the spot market will reflect anticipated resource adequacy shortfalls.
 - New load may choose to “self-supply” (build generation on-site).
 - Information regarding expected resource adequacy helps generation developers and load anticipate outside of spot shortage pricing.
- Further, the spot market reflects a value of lost load (VOLL) that is considerably below the implied VOLL for resource adequacy.

Issues with “Putting More Money in the Market”

- Wide gap in market revenue between averting retirement and investment in new capacity.
- Covering going forward costs can be between \$2/kW-mo and \$4/kW-mo.
- Covering the (net) cost of new entry can be between \$7/kW-mo and higher.
- Increasing revenue opportunities can reduce the likelihood of retirement, but may not be sufficient to incent new investment.
- Additional revenue may result in excess profit for existing generation (excess cost to consumers) without adding reliability... Revenue source should be tied to reliability goal.