



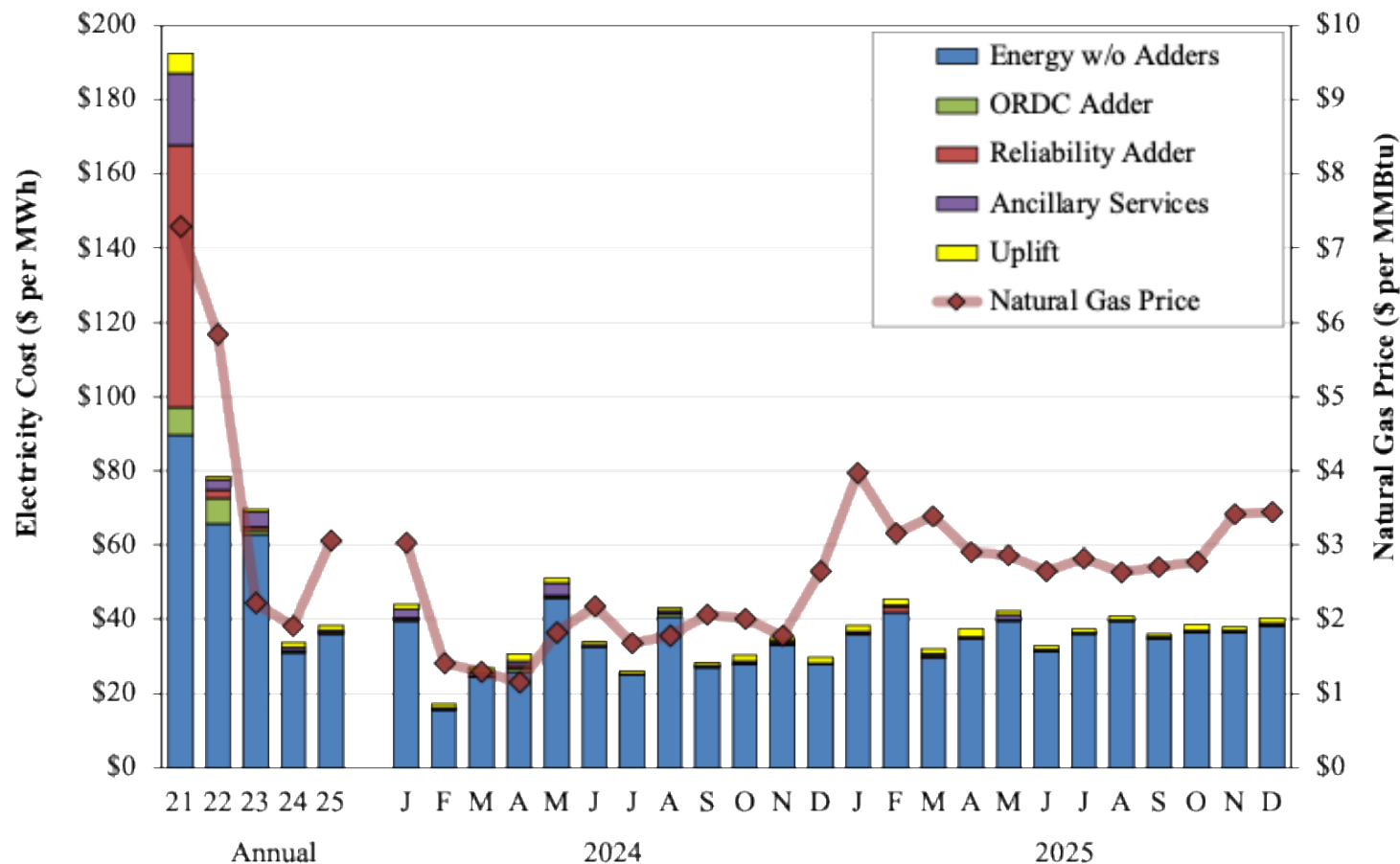
Item 9: Independent Market Monitor (IMM) Report

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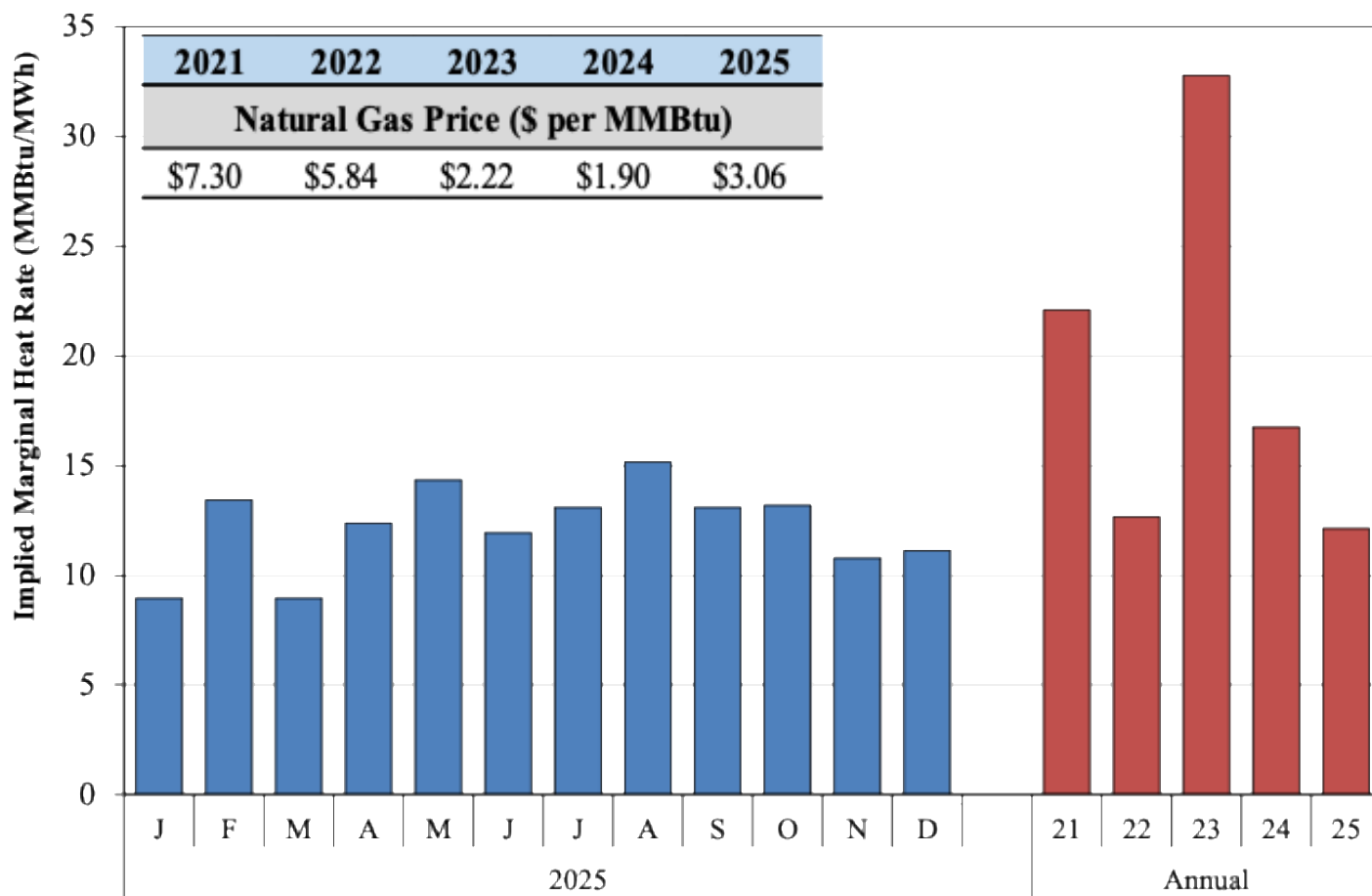
Board of Directors

ERCOT Public
June 1 - 2, 2026

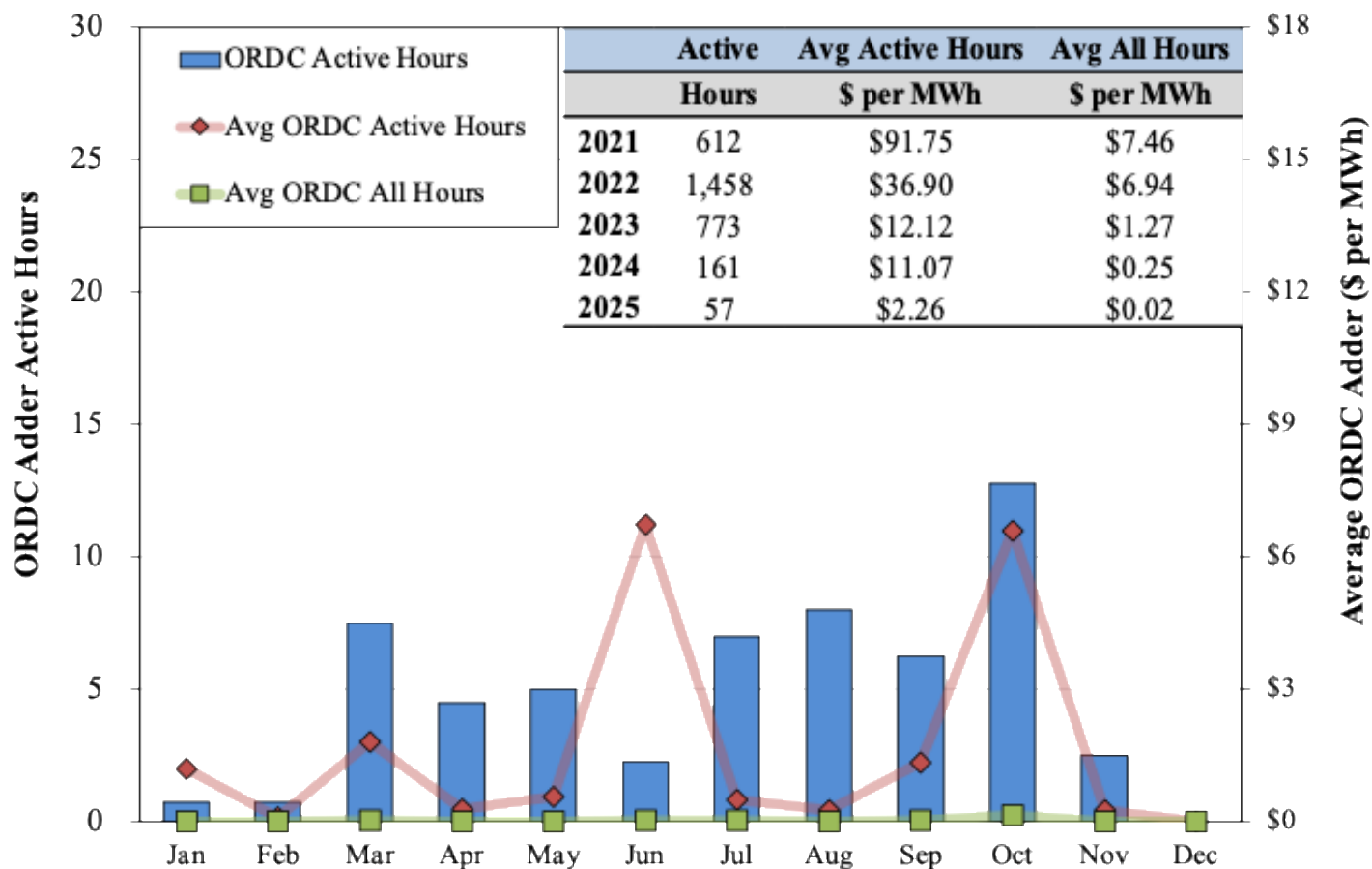
The all-in price of electricity increased slightly in 2025, primarily due to increase in the price of natural gas.



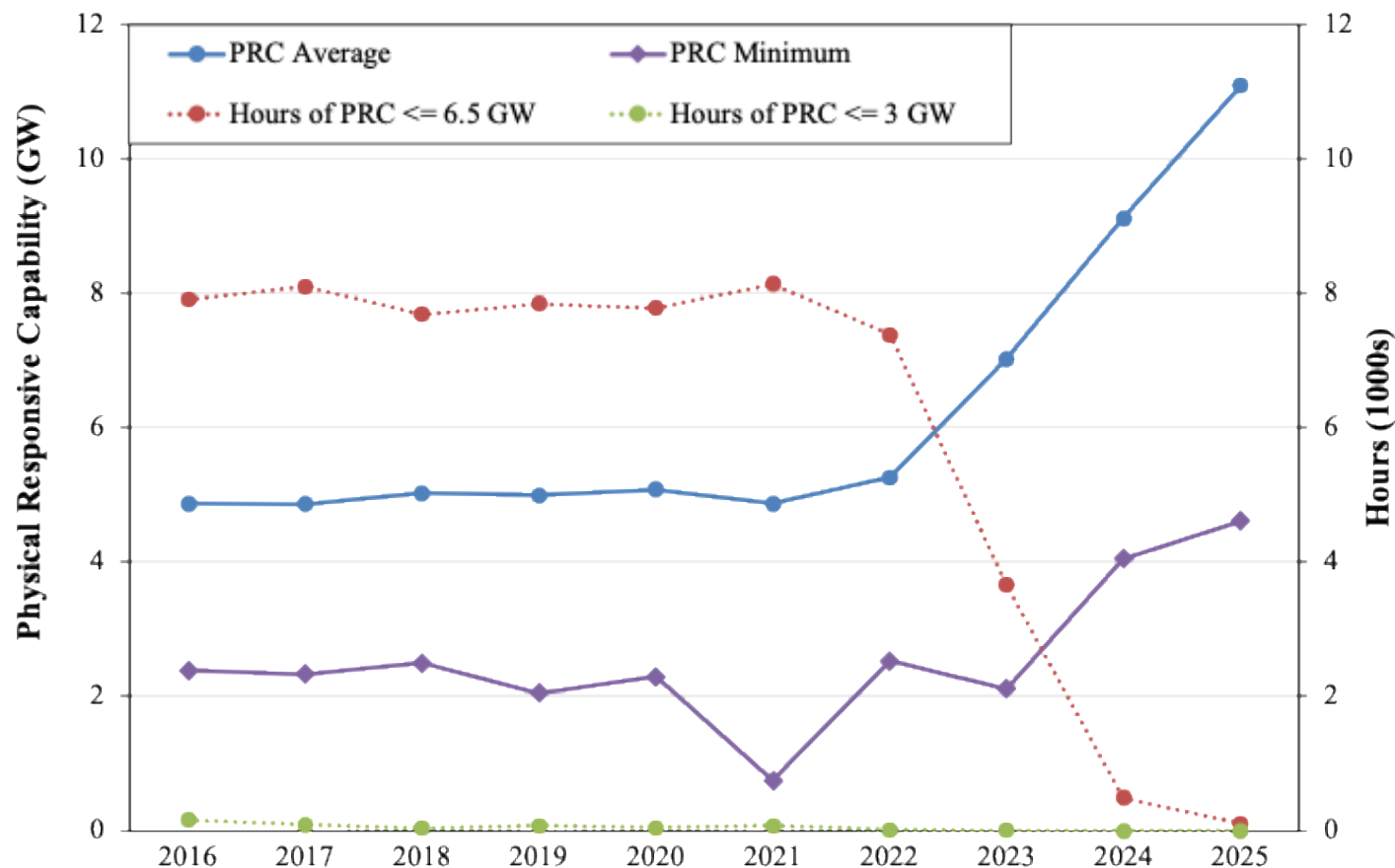
The implied heat rate decreased, indicating less reliance on more expensive resources.



Shortage pricing was lowest since originally implemented.



Low shortage prices partially attributable to current surplus of supply in the ERCOT market



IMM Comments on AS Methodology (1)

- The ERCOT market system relies heavily on shortage pricing to provide investment signals to maintain resource adequacy.
- There are several aspects that directly impact price formation during periods when shortage pricing is expected, including
 - Extent of out-of-market programs,
 - Extent of Operator intervention, and
 - Structure of the AS market.
- AS procurement and pricing (esp. shortage pricing) is a critical aspect of this.
- Have had productive conversations with ERCOT regarding modeling and parameter assumptions to consider in order to meet Commission request from November 2024 Open Meeting.

IMM Comments on AS Methodology (2)

For the AS Methodology for 2027, we provide recommendations regarding alternatives to model in the study:

- Forecast error time horizon of 1 and 3 hours (6 is baseline).
- Convergence criteria based on acceptable probability of firm load shed (“Watch” criteria is baseline) and eliminate the replacement criteria for frequency reserves (full replacement is baseline).
- Accounting of available capacity that recognizes full capability of availability in the system and RTC procurement features (discounting 25% and 60% is baseline).
- ESR reserve accounting based on 1 hour duration (baseline is 4 hours).

Notes on RA Through Markets

- There are three fundamental designs that are intended to support resource adequacy in wholesale electric markets:
 - Energy Only (TX), Capacity Market, and Load Obligation.
- Energy only and capacity markets are designed to price shortages, signal scarcity, and provide revenue for new generation.
- There has been a pattern of considering programs that price services outside the market (e.g. FFSS, ERS, RDR, Fwd Capacity Procurement).
- These programs suppress price which inhibits the market's ability to signal relative shortage and incent new investment.
- A market needs to experience and price shortages in order to provide the incentives for new investment.
- Focus should be on shortage pricing and new products in-market where needed to provide revenue signals for new investment.