

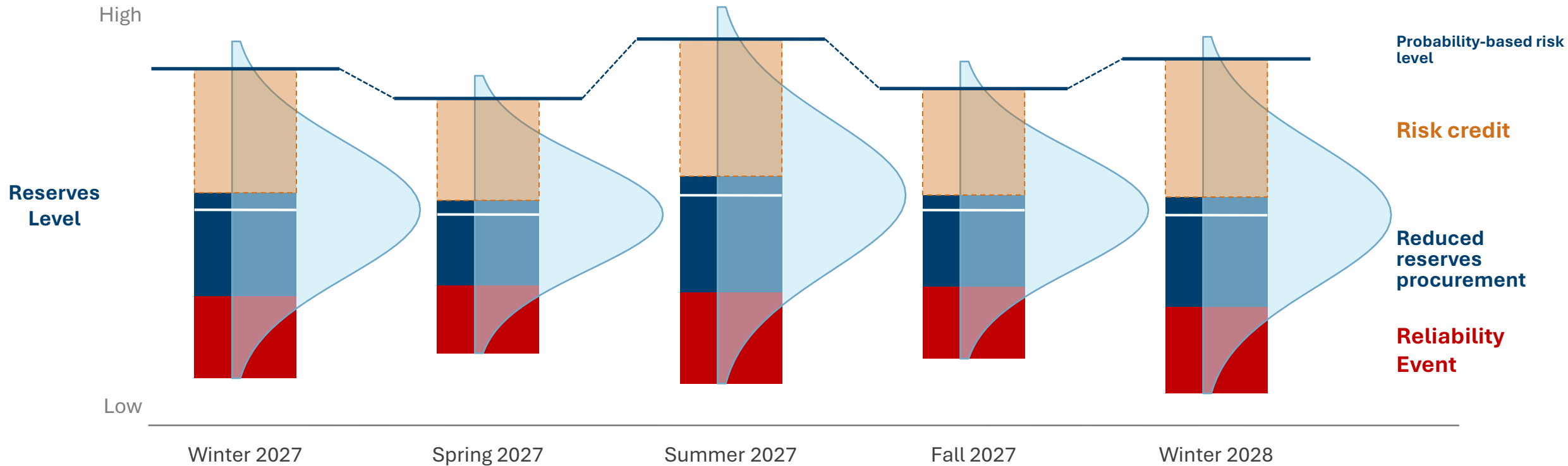


Concerns with Risk Credits in the Ancillary Service Methodology

Presentation to the ERCOT Board of Directors

September 2026

Risk Credits Short-Change the Probabilistic Risk Assessment

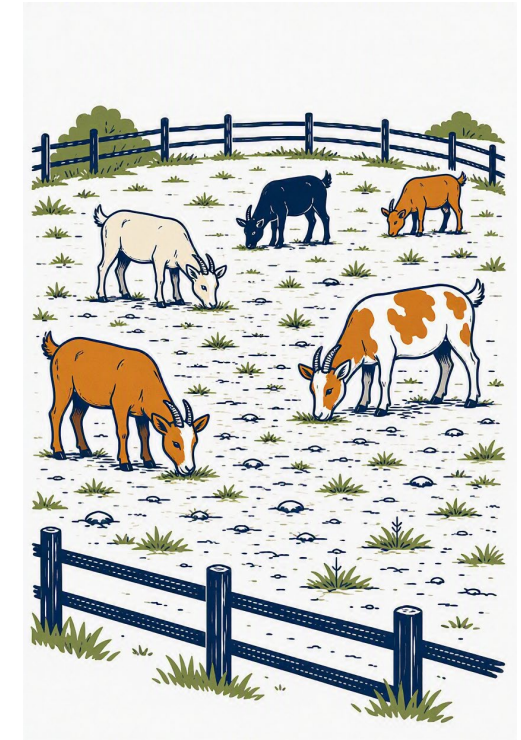
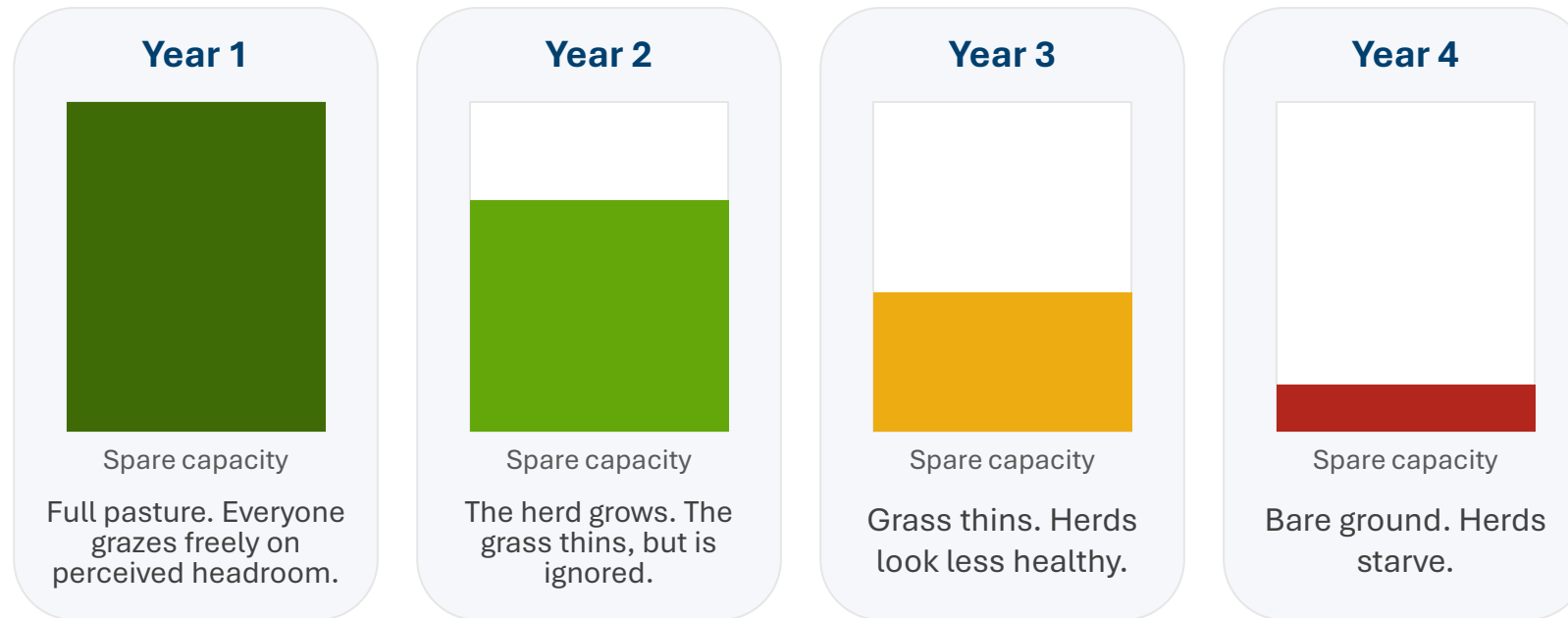


Illustrative.

“Past performance is not indicative of future returns”

Risk Credits: A Tragedy of the Commons

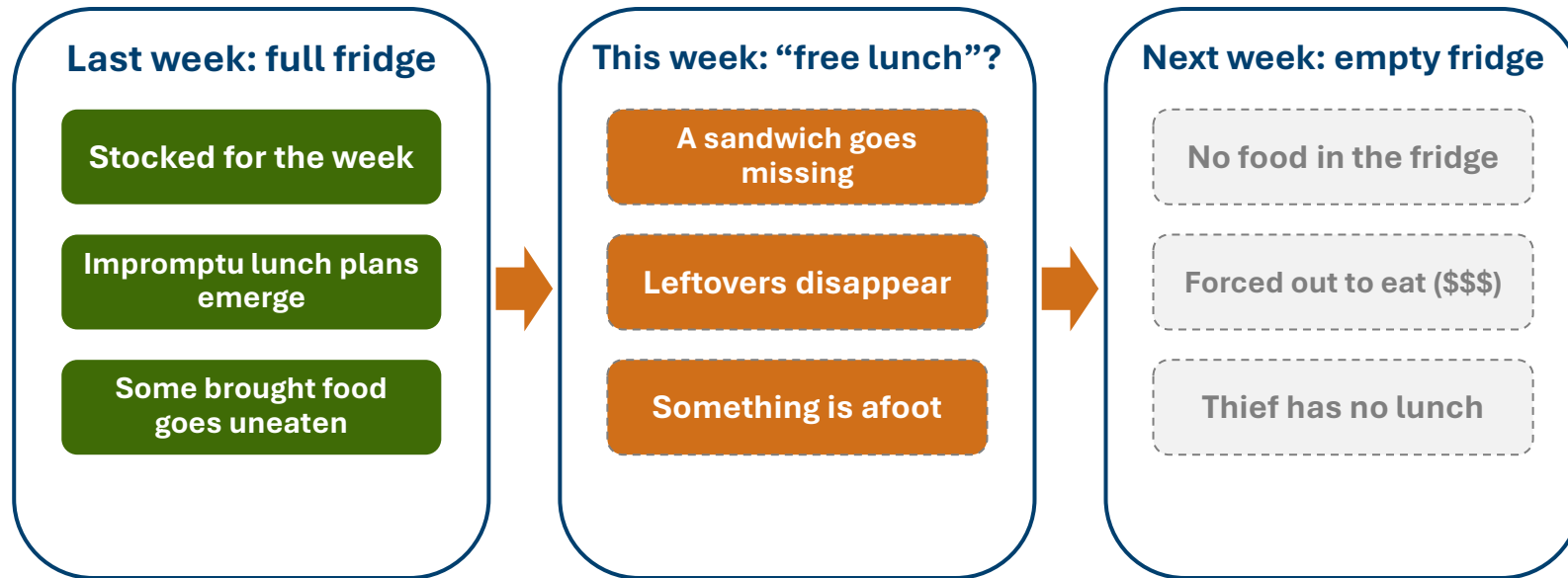
Analogy 1: the shared pasture — risk credits overgraze



Risk credits take the commons for granted, undervaluing the service provided and accumulating systemic risk in an energy-only market.

No Free Lunch in the Office Fridge

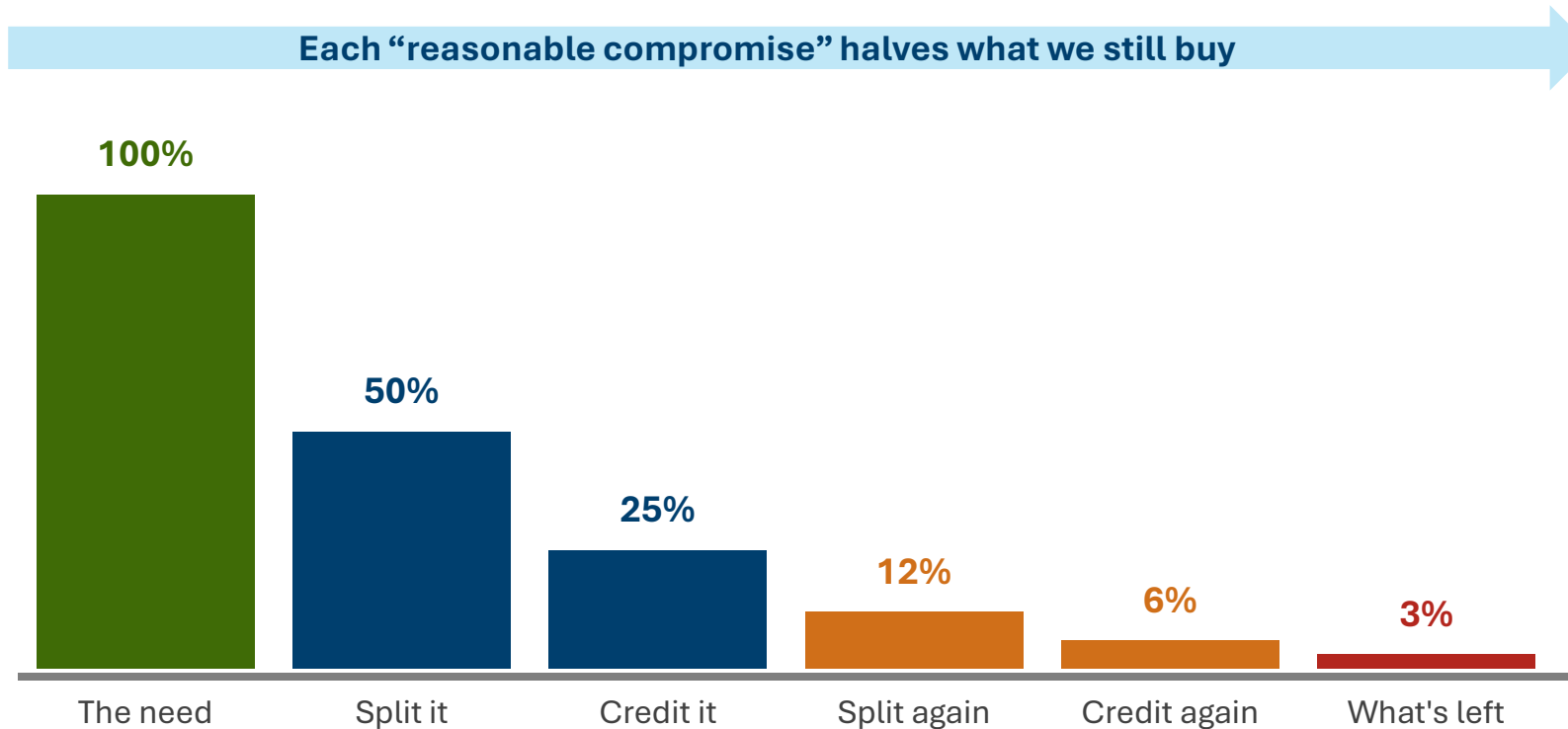
Analogy 2: eating someone else's lunch is not free, and eventually they'll stop bringing lunch to work



Some spare food last week is not a future meal plan. There's no such thing as a free lunch.

Meeting Halfway, Again and Again, Trends to Zero

Analogy 3: every compromise cuts what's left in half



Illustrative.



Cut the requirement in half every cycle and you end up buying no reserves at all.

Driving by the Rearview Mirror

Analogy 4: assuming the road ahead is like the road behind

Behind us

Spare capacity from oversupply and conservative operations

Weather was pleasant, roads were familiar, flat, and straight

Durable fuel – full tank of gas and lots of refueling stations

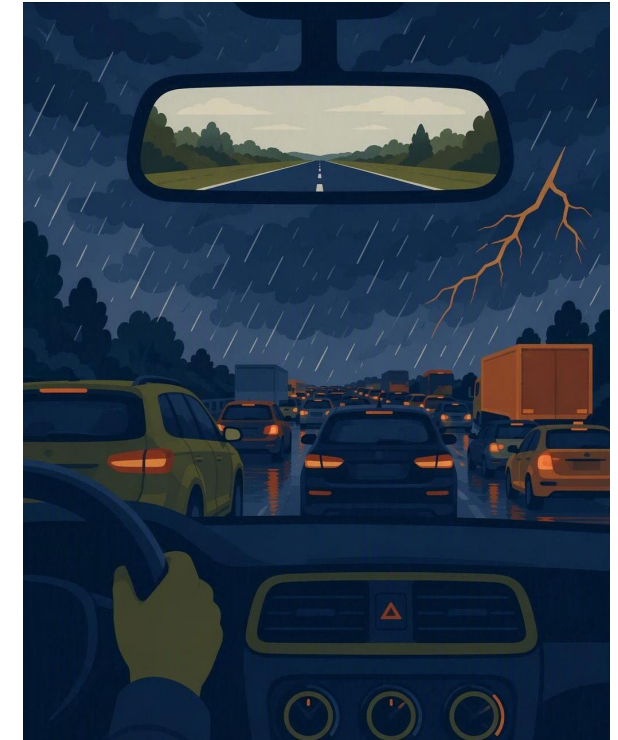


Ahead of us

Markets react to oversupply market price signals

Weather unpredictable, driving on unfamiliar, curvy, mountain roads

Range anxiety – unsure how long the state of charge will last



Risk credits assume that where we are driving toward is just like where we are driving from.

The Under-Funded Volunteer Fire Department

Analogy 6: assuming volunteer support is not a good long-term plan

Year 1

Volunteers show up; the fire station needs repairs.

Year 2

No fire last year, so budget gets cut. Station is falling apart.

Year 3

Volunteers retire. Trucks are sold.

Fire day

No help is available when needed.

Nobody builds for a price that assumes the work is free.

Risk credits take the reserves for granted and, in turn, holds down the price the market pays for the reserves it does buy — discouraging the very generation ERCOT depends on.



If reliability is not priced, the market will not deliver. Don't assume it's voluntarily donated.