

A BROADER PERSPECTIVE: THE RELATIONSHIP BETWEEN MARKETS AND REGULATION

2013 Austin Energy Conference

April 19, 2013

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PUC Statutory Authorities

- §35.004--PUC to ensure that ancillary services are available at reasonable prices and non-discriminatory terms and conditions. Acquisition of ancillary services on a nondiscriminatory basis by ERCOT shall be deemed to meet this requirement.
- §39.001--Legislative policy to protect the public interest in the establishment of a competitive electric industry.
- 39.001--Production and sale of electricity is not a monopoly warranting regulation; electric services and their prices should be determined by customer choices and the normal forces of competition.

PUC Statutory Authorities

- 39.001--PUC shall authorize or order competitive rather than regulatory methods to achieve competition goals.
- §39.101--Customers entitled to safe, reliable, and reasonably priced electricity.
- 39.151—PUC may delegate authority to ERCOT to enforce operating standards and to establish and oversee transaction settlement procedures. The PUC may establish terms and conditions for ERCOT's authority to oversee utility dispatch functions.

Evolution of ERCOT Energy Market

- 2001—Costs of congestion management assigned to market as a whole
- 2002—Inter-zonal congestion costs directly assigned to market participants using congested elements
- 2007--Scarcity pricing rules: system-wide high and low offer caps, peaker net margin, high cap set at \$1500/mwh, later increased to \$2250, \$3000
- 2010—Direct assignment of zonal and local congestion costs, day-ahead energy market
- 2012—Increases in system-wide offer cap (high cap) to \$4500 future increases to \$5, 7, 9k

PUC Resource Adequacy Trends

- Higher level of control used to achieve better functioning competitive market.
 - From no direct assignment of congestion costs to direct assignment of inter-zonal congestion
 - From zonal to nodal market
- Increasing likelihood of high energy prices to increase incentives to invest.
 - Raising system-wide offer caps and PNM trigger

What more should be done?

- Is adopting a forward capacity market consistent with past efforts to achieve a better functioning market through additional controls?
- Are relatively rare high price events a sound foundation for investment in generation or DR capacity?