

**Senate Business and Commerce Committee
Interim Hearing – July 10, 2012**

**Testimony of Daniel L. Jones
Vice President, Potomac Economics
Director, Independent Market Monitor
for the ERCOT Wholesale Market**

Thank you, Chairman Corona and members of the Senate Business and Commerce Committee for the opportunity to testify before you today.

My name is Dan Jones, and I am a Vice President at Potomac Economics and serve as the Director of the Independent Market Monitor for the ERCOT wholesale electricity market.

My testimony today relates to the interim charge of whether the ERCOT protocols provide operational, administrative or competitive advantages to any specific generation by fuel type.

As discussed by Mr. Doggett, there are a number of provisions in the ERCOT protocols that differ in their application to various generation technologies. It is my view that the provisions most relevant to your interim charge are the relaxed requirements related to adherence to schedules for intermittent renewable resources (“IRRs”) such as wind and solar facilities as compared to other generation technologies.

Under the ERCOT protocols, IRRs are largely exempt from schedule control requirements that are applicable to other generation technologies. These schedule control provisions require power plant operators to provide a plan to ERCOT each day about how they intend to operate. The plant operators are then generally required to follow those plans or be subject to penalties, with the provision that they can adjust those plans as long as they timely inform ERCOT. In contrast, IRRs are treated in the ERCOT protocols in the same manner as load (end-use customers), in that neither is generally subject to schedule control

requirements. The one exception is when an IRR is required by ERCOT to reduce its production to manage congestion on the transmission system. In this circumstance, IRRs are required to respond in a manner similar to other power plants. However, once the Competitive Renewable Energy Zones transmission projects are completed, the need for such action is expected to be rare.

From a market efficiency perspective, this differing treatment for IRRs makes sense, because, for example, higher than expected output from one IRR may be offset by lower than expected output from another. Overall, it is more cost-effective for ERCOT to centrally manage these deviations of IRRs in aggregate than to impose requirements on individual IRR facilities. However, although the current provisions are a more cost-effective approach, they are not cost-free.

Each day, ERCOT manages variations in demand by end-use customers through the use of “ancillary services,” which are services provided by power plants that are paid to be available to be ramped up and down by ERCOT in order to balance supply and demand. ERCOT has also increasingly used these services to manage deviations in the output of IRRs as their share of the overall generation fleet has expanded. However, under the current ERCOT protocols, the costs of these ancillary services are borne solely by retail electric providers, municipally-owned utilities and electric cooperatives based on their retail customers’ share of the total electricity consumption.

It is my opinion that it is important to retain the efficiency of ERCOT’s centralized management of aggregate IRR schedule deviations that exists under the current ERCOT protocols. However, in consideration of the facts that, under this approach, loads and IRRs impose similar burdens and receive similar benefits relating to the provision of ancillary services, it is also appropriate to consider whether IRRs should bear a portion of these costs.

One approach would be to simply include the actual production from IRRs in ERCOT’s allocation of ancillary service costs. The following data provide a breakdown of the results of this approach had it been in place in 2009, 2010 and 2011:

	Load Only Allocation	Load and IRRs Allocation	
	<u>Load (\$/MWh)</u>	<u>Load (\$/MWh)</u>	<u>IRRs (\$/MWh)</u>
2009	1.17	1.11	1.10
2010	1.26	1.17	1.11
2011	2.41	2.29	1.40

As a point of reference, the ancillary service costs for loads represent approximately 3 to 4 percent of the ERCOT-wide cost of wholesale energy, which was \$34.03, \$39.40 and \$53.23 per MWh in 2009, 2010 and 2011, respectively.

This concludes my testimony and I will be glad to answer any questions.