

## ERCOT's market structure and oversight

The Electric Reliability Council of Texas, or ERCOT, is a nonprofit organization that operates an energy-only wholesale electricity market for 90 percent of the state of Texas. This market design pays generators only for the energy they provide to the grid, with very few exceptions. The energy-only wholesale electric market is unique in the United States since other competitive markets typically pay generators for having capacity available in their systems.

The Public Utility Commission of Texas (PUCT) regulates ERCOT, with oversight from the Governor and the Texas Legislature.

### What is ERCOT's role?

In 1999, the Texas Legislature restructured the Texas electric market and assigned ERCOT four primary responsibilities:

- Maintain electric system reliability
- Facilitate a competitive wholesale market
- Ensure open access to transmission
- Facilitate a competitive retail market

ERCOT is not a market participant and does not own generation or transmission/distribution lines, but it does manage how those resources work together to provide reliable electric service to the citizens of Texas. Its wholesale electricity market operates 24/7, 365 days a year. The business model allows market participants to buy and sell power in a voluntary Day-Ahead Market or during real-time operations.

The grid operator also performs financial settlement for the competitive wholesale bulk power market and administers retail switching for seven million premises in competitive choice areas.

### Who participates in the ERCOT wholesale market?

As part of its restructuring in 1999, the Texas Legislature deregulated the retail electric market to create retail competition and give consumers a choice in selecting their energy supplier. When this occurred, generators, wires companies and electric retailers began to operate independently from one another, with the exception of municipally-owned utilities and cooperatives who opted out of deregulation and remain vertically-integrated.

### Bilateral contracts in the wholesale market

Market participants often purchase their load ahead of ERCOT's Day-Ahead and Real-Time Markets. These purchases occur through bilateral contracts, which occur outside of the ERCOT-administered markets. In these bilateral arrangements, Load Serving Entities and generators may exchange electricity or rights to generating capacity under mutually-agreeable terms for a specified period of time. By securing some or all of their projected load demand in advance, companies hope to hedge against potential volatility in the ERCOT Day-Ahead and Real-Time Markets.

## How does ERCOT pay for its operations?

ERCOT is funded by a System Administration Fee of 55.5 cents per MWh to cover its system costs. The cost to operate the electric grid and market for most of Texas averages about 50-60 cents per month, or about \$7 per year, for the average residential household.

Beyond the System Administration Fee, ERCOT does not set electric rates. Rates are either set by the Public Utility Commission of Texas or the Load Serving Entities. Costs incurred by Transmission Service Providers are reimbursed by Distribution Service Providers based on their load ratio share within the ERCOT system during summer peak hours.