



Item 4: Staff Response to Independent Market Monitor (IMM) 2023 State of the Market Report for the ERCOT Electricity Markets

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ERCOT Public

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Overview

- **Purpose**

Provide ERCOT's response to the 2023 Independent Market Monitor State of the Markets report.

- **Voting Items / Requests**

No action is requested of the ERCOT Board; for discussion only.

- **Key Takeaways**

- There is alignment between ERCOT and the IMM on several new and existing recommendations.
- Some new and existing recommendations have revisions requests in process.
- Other recommendations warrant further discussion, evaluation, and prioritization.
- The IMM has two key concerns with RTC+B with different impacts on project.
- ERCOT will take actions to evaluate and consider IMM concerns.

Key market improvements

Real-time co-optimization

RTC+B project

Uncertainty reserve product

Dispatchable Reliability Reserve Service (DRRS)

Multi-interval real time optimization

Under review

- **Key Takeaway**

- ERCOT is actively working on items related to IMM's key market improvements.

New recommendations

| | | |
|--|--|---------------------------------------|
| General agreement | Increase shadow price cap in real-time | Under consideration in NPRR 1230 |
| Warrants further discussion | Modify proxy offer cap for renewables | Made similar changes in past |
| | Improve requirements for Firm Fuel Supply Service (FFSS) | Further discussion warranted |
| Agree on need for improvement, approach differs | Improve procurement and deployment of ERCOT Contingency Reserve Service (ECRS) | NPRR 1224; internal procedure changes |

- **Key Takeaways**
 - ERCOT is working on new recommendations.
 - ERCOT has different levels of agreement with IMM recommendations.

Status of existing recommendations

| | |
|--|---|
| Allow transmission reconfigurations | NPRR 1198 related |
| Change the linear ramp period for ERS summer deployments | Partially addressed in NPRR 1006 |
| Change historical lookback period for ORDC calculations | Future consideration |
| Eliminate the “small fish” rule | Requires PUCT to instruct action |
| Reevaluate net metering at certain sites | Awaiting prioritization |
| Implement smaller load zones that recognize key transmission constraints | Under evaluation in stakeholder process |
| Implement a Point-to-Point Obligation bid fee | Under evaluation in stakeholder process |
| Implement ancillary services based on the shadow price of procuring each service | Future consideration |
| Modify allocation of transmission costs by moving away from 4 Coincident Peak method | Requires PUCT to instruct action |

- **Key Takeaway**
 - The status of existing IMM recommendations varies by issue.

Next steps (excluding RTC)

Continue to work with Independent Market Monitor, PUC, and stakeholders to address outstanding recommendations

- Further discuss and evaluate
- Prioritize relative to other initiatives
- Draft revision requests as appropriate

- **Key Takeaway**

- ERCOT will work with stakeholders to continue to evaluate, discuss, and prioritize IMM recommendations as appropriate.

Real-time co-optimization – concern 1

Demand curve values

- Related to lack of “ramp in” of scarcity values.
- IMM contends that ancillary service demand curve values should start lower and increase in value as shortage gets larger.
- This was discussed in the stakeholder process.
- This concern could potentially be accommodated in implementation of RTC+B, but solutions need to be raised quickly to avoid delay.

• **Key Takeaways**

- This is a known design feature.
- This concern could be addressed before RTC+B implementation but need to move quickly to keep project on present timeline.

Real-time co-optimization – concern 2

Fundamental issue regarding ancillary service design

- Related to the lack of hierarchy and substitutability of different reserve products.
- ERCOT uses a linked ancillary service approach versus a nested/cascading approach used in other RTO/ISOs.
- This is a known design approach and was discussed in the RTC+B stakeholder process.
- Affects day-ahead in addition to real time.
- Would significantly delay/curtail current implementation of RTC+B.
- Benefits of switching and delaying relative to current approach are not clear.

• **Key Takeaways**

- This is a known design feature.
- This concern could have significant implications on the RTC+B project.

Real-time co-optimization – next steps



Determine impacts of RTC+B delay

Evaluate the differences between current RTC approach and IMM recommendations

Consider IMM modifications to demand curves when available

Consider fundamental concerns as part of stakeholder process

- **Key Takeaways**
 - ERCOT will take actions to evaluate and consider IMM concerns.

Questions?