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Zonal Market Subsidies Inflate Prices and Prolong Problems

Uplifted intra-zonal congestion costs (including the cost of paying for “reliability must run” generating plants to help alleviate congestion problems) rose dramatically from 2001 to 2003, increasing from \$25 million to almost \$400 million. Under the current zonal market design, these congestion costs, which vary each year based on local transmission and/or generation constraints, are “uplifted” statewide and paid for by all electric customers in ERCOT, regardless of where the problems arise.

For example, in 2003 – the height of statewide congestion costs -- the North Zone (Dallas-Fort Worth) incurred local congestion costs of \$194 million. However, customers in the North Zone paid only 54 percent of the costs they incurred, or \$105 million. By contrast, customers in the Houston Zone incurred only \$19 million in local congestion costs, but paid nearly \$72 million -- 377 percent!

Comparison of Actual 2003 Local Congestion Costs to Congestion Payments

Zone	Amount Paid	Actual Congestion Costs Incurred	Percent of Zonal Cost Paid
North	\$ 105,263,137	\$ 194,290,008	54%
Houston	\$ 71,937,576	\$ 19,094,860	377%
South	\$ 67,074,266	\$ 29,342,038	229%
West	\$ 18,827,006	\$ 20,375,080	92%

Comparison of Actual 2003 Local Congestion Costs plus Reliability Must Run Costs to Amounts Paid

Zone	Amount Paid	Actual Congestion Costs	Percent of Zonal Cost Paid
North	\$ 158,960,921	\$ 194,290,008	82%
Houston	\$ 108,635,023	\$ 19,094,860	569%
South	\$ 101,290,796	\$ 134,367,280	75%
West	\$ 28,431,208	\$ 49,565,800	57%

Source: ERCOT website

The practice of uplifting congestion costs to the entire system, which occurs in today’s zonal market, creates artificially high prices for millions of Texas electricity customers and also prolongs the problems that created the congestion costs.

Nodal Market Pricing Solves Problems and Lower Costs

In instances where congestion costs, such as those arising between zones, have been directly assigned on a “cost-causation” basis in ERCOT, these costs have declined from over \$140 million in 2001 to about \$20 million in 2003.

When congestion costs are allocated to the areas where they actually arise, the right financial incentives are provided to lower those costs by putting in place short- and long-term solutions such as more transmission lines or additional generation to reduce or eliminate the congestion.

By implementing a nodal market in Texas, all congestion costs would be allocated to the areas where they actually arise, reflecting more accurate pricing and providing incentives for companies to solve the transmission and/or generation problems that create congestion.

However, if no changes are made to the current market design, there will be no incentive to control congestion costs through changes in behavior and no proper price signals to cause the construction of needed new generation or transmission facilities – both of which are critical to the maintenance of reliable electric service in highly congested areas, such as the North Zone which includes Dallas-Fort Worth.

According to an independent cost-benefit study filed with the Public Utility Commission of Texas, a nodal market would reduce the costs to serve customers in Texas by more than \$832 million immediately and more than \$8.2 billion over the next 10 years. An additional \$1.2 billion could be saved in electricity production costs by using more efficient plants to generate electricity in a nodal market.

Implementing a nodal market with local pricing will bring long-term economic security and growth to the Metroplex and other parts of Texas, as current transmission and generation problems are resolved and the supply of electricity is able to keep up with ever-increasing demand from customers.