



## Texas Competitive Power Advocates

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### **ERCOT REPORT POINTS TO NEED FOR NODAL ELECTRIC MARKET DESIGN**

"State of Market" study finds nodal market structure would solve most problems

An independent analysis of the state's wholesale electric market released this week overwhelmingly confirms that transition to a nodal – or local – market design would eliminate most of the operational problems and inefficiencies that plague the state's system of electricity generation and transmission, according to outside consultants hired by the Public Utility Commission of Texas.

Texas Competitive Power Advocates (TCPA), a trade association whose members support a nodal market design, thinks this important report should be required reading.

"The report clearly bolsters Texas Competitive Power Advocates' position that transitioning to a nodal market design is best both for consumers and the long-term stability of the state's electricity system," said William Taylor, vice president of government and regulatory affairs at Calpine and president of TCPA. "Texas consumers will benefit from cleaner, more reliable and affordable electricity that would result from the nodal – or local – pricing of wholesale electricity and the centralized coordination of the state's power generators."

The "2003 State of the Market Report for the ERCOT Wholesale Electricity Markets," released Wednesday by Potomac Economics, examines in detail the performance of the Electric Reliability Council of Texas (ERCOT) wholesale electricity market, assesses the efficiency and incentives provided by the current market rules and procedures, and evaluates the conduct of market participants.

The report's executive summary states: "The ERCOT market suffers from a number of operational issues and inefficiencies that can be attributed to the portfolio scheduling and bidding rules and procedures, and the zonal congestion management framework. To address these issues, we make a number of recommendations designed to improve the performance of the current ERCOT markets. However, a number of the market issues identified in this report would be most effectively addressed by the introduction of the Texas Nodal markets that are currently being considered for implementation in 2006."

The current zonal market used by ERCOT prices wholesale electricity within broad zones across the state. Under the zonal system, nearly \$400 million in local congestion costs were incurred in 2003 – mostly in Dallas-Fort Worth. These congestion costs are passed along to customers across ERCOT through higher electricity prices, and the state continues to depend heavily on power generated by inefficient, often more polluting plants.

The report notes that even if Texas chooses to continue operating under the zonal market, which the consultants do not recommend, the Dallas-Fort Worth area should be carved out to create its own zone, a prospect that TCPA leaders said would bring higher prices for DFW customers without addressing the underlying lack of sufficient transmission and generation that creates the congestion problems.

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The report finds that implementing a nodal market design would:

- Establish a centralized, day-ahead commitment process in which generation decisions would be coordinated by a central entity and generators would have enough advance notice to ramp up their cheapest, most efficient power plants.
- Establish efficient, transparent prices that accurately reflect congestion within ERCOT and assign congestion costs where congestion occurs. It would also improve participants' ability to hedge these costs since they would no longer be hidden in the market prices and uplifted to all electricity consumers in ERCOT, as they are currently.
- Send efficient price signals to generators that reflect all network constraints, greatly reducing the need for expensive, last-minute calls to power generators that increase the price of electricity.
- Provide the proper price signals and needed transparency to encourage power generators to run at the right times in the right places to ensure reliability without as much intervention from ERCOT.

"The advantages of a nodal market design are clear," Taylor said. "A nodal market will mean lower electric bills for most Texans. A nodal market will reduce pollution by using cleaner, more efficient power plants. And a nodal market will bring more accurate pricing to help companies build transmission and generation where it is needed to ensure Texans can continue to enjoy reliable electricity for the foreseeable future."

"How can Texas afford not to switch to a nodal market design?" Taylor said.

Texas Competitive Power Advocates is a trade association representing more than a dozen Texas power generators, wholesale power marketers and retail electric providers.