



## Texas Competitive Power Advocates

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### **TEXAS NODAL TEAM REVIEWS COST-BENEFIT STUDY; NODAL MARKET WOULD SAVE AVERAGE OF \$800 MILLION ANNUALLY**

Adoption of a nodal power market design in the Electric Reliability Council of Texas (ERCOT) would reduce the cost of providing electricity by an average of more than \$800 million a year, resulting in lower power bills for millions of Texas customers, according to an independent study presented Monday to the Texas Nodal Team, a stakeholder group assigned by ERCOT to study the issue.

These immediate savings would increase to \$1.2 billion in 2013 as the new market matures, found the Cost-Benefit Study Energy Impact Assessment (EIA). The Texas Nodal Team on Monday recommended that ERCOT file the study at the Public Utility Commission of Texas (PUC). ERCOT is expected to consider the study at its Dec. 14 meeting.

“The findings of this study mirror what we have seen in other successful wholesale markets across the country,” said William Taylor, TCPA president and vice president of government and regulatory affairs at Calpine Corp. “Transition to a nodal market design in Texas, as outlined in the cost-benefit study, will address serious concerns about the reliability and efficiency of the current ERCOT wholesale market design and bring tremendous benefits to Texas consumers.”

The EIA study is one of three separate studies that is included in a comprehensive cost-benefit analysis requested by the PUC, as it examines moving to a nodal market design in which wholesale electricity prices are calculated for specific delivery points based on local demand, generation and transmission available to serve that local area. (Currently, ERCOT prices wholesale electricity within a few broad zones across the state, artificially inflating prices for some customers and depressing them for others.) The study, conducted by independent consultants Tabors, Caramanis & Associates, includes an assessment of the one-time costs to set up a nodal market, estimated to range from a high of \$156 million to a low of \$107 million.

“A nodal market would lead to ERCOT-wide economic dispatch, in which newer, more efficient, lower-cost power plants would run more often, while older, inefficient plants would run less,” Taylor said. “These newer plants use less natural gas and produce far fewer emissions, which would provide significant environmental benefits for Texas consumers, as well as cost savings.”

The Tabors study simulated electric market operations, comparing actual ERCOT operating and settlement data under the current zonal market design and projected market operations under a nodal market design. The study includes a regional analysis that shows the cost of serving electric consumers would be reduced in **all** ERCOT zones over the study horizon, with customers in the Houston and North Zones enjoying the largest savings under a nodal market

design in every year. These EIA findings are consistent with Tabors' conclusion that the costs of actual system operations in 2003 were about \$1 billion too high when compared to a more rational power plant dispatch.

In addition to the EIA, Tabors also has released a revised qualitative analysis – the Other Market Impacts Assessment (OMIA) – whose findings mirror those of the 2003 ERCOT State of the Market report, released in September by Potomac Economics. The OMIA concludes that design elements specific to ERCOT's current zonal market cause the market to be economically inefficient, which unnecessarily increases the cost of serving Texas' electric consumers.

The OMIA finds that, coupled with the removal of the operational problems described in the Potomac report, a nodal market appears to offer significant benefits as measured in the EIA. Additional, qualitative benefits of a nodal market design include:

- **Facilitation of competitive markets.** Transparency of market operations, as well as increased access to market information, not only will enhance market participants' ability to hedge risks and make better day-to-day and longer term business decisions, but also will eliminate the potential for gaming.
- **A level playing field for market participants.** Nodal dispatch of generating plants will reduce the ability of some market participants to maximize their revenues by submitting less-than-optimal schedules so ERCOT will have to pay them for re-deployment.
- **Efficiency of production.** A nodal market will alleviate some of the significant operational limitations in today's zonal market, where operations staff at ERCOT must guess what the system's supply and demand will be each day and then react by calling up additional power generators at the last minute to ensure reliability.
- **Efficient resource expansion.** Improved, accurate nodal pricing signals will encourage the construction of new, efficient generation in areas such as Dallas-Fort Worth, where it's badly needed.
- **Enhanced grid reliability.** Adding transparency will enhance ERCOT's ability to manage reliability by allowing operations staff to see exactly how individual units are operating and responding in the system.

“This cost-benefit study shows that Texas power customers would be better served under a nodal market design,” said Taylor. “We are hopeful that the PUC will continue to move forward with its intention to improve the wholesale electricity market and provide significant savings to electric customers, and adopt the proposed nodal market design.”

Texas Competitive Power Advocates is a trade association representing more than a dozen power generators, wholesale power marketers and retail electric providers in Texas. For more information on the proposed nodal market design and Texas Competitive Power Advocates, visit [www.competitivepower.com](http://www.competitivepower.com).