



**ERCOT Testimony to Senate Business
& Commerce Committee,
Chairman John Carona**

October 25, 2010

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President & CEO**

Facilitating the retail market is one of our primary mandates

As the designated independent organization under Senate Bill 7, ERCOT was assigned these responsibilities [Public Utility Regulatory Act (PURA) 39.151]:

System Reliability

- Ensure reliability and adequacy of regional electric network

Open Access to Transmission

- Ensure nondiscriminatory access to transmission/distribution systems for all buyers and sellers

Competitive Retail Market

- Facilitate retail registration and switching

Competitive Wholesale Market

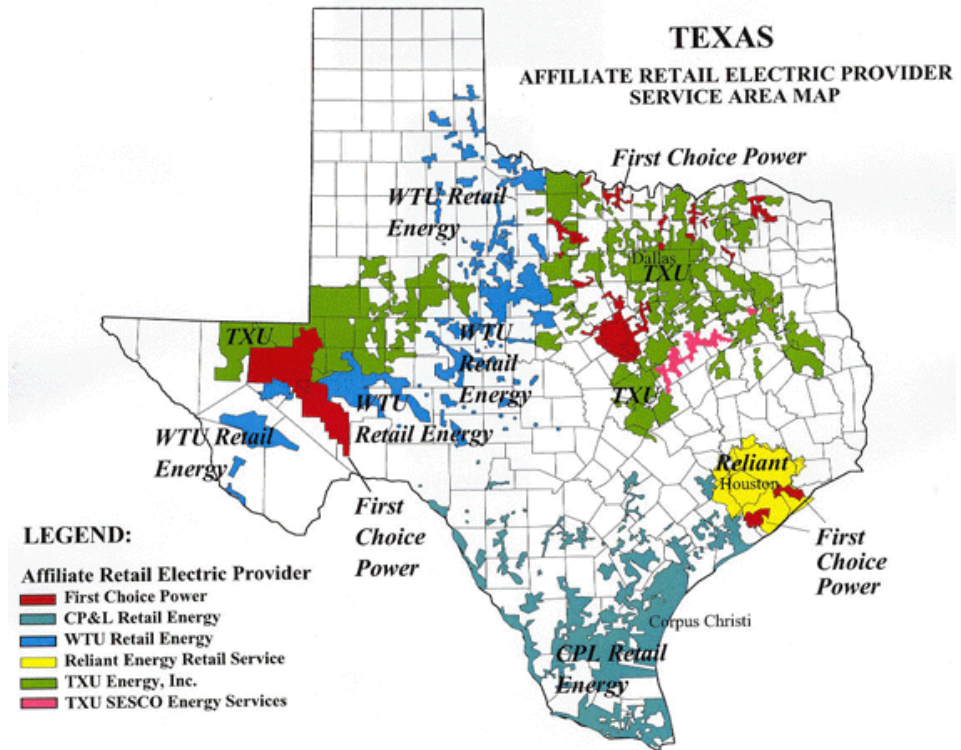
- Ensure accurate accounting for electricity production and delivery among the generators and wholesale buyers and sellers in the region

The ERCOT 'retail competition' map

- This map shows the regions of Texas that are open to retail competition
- These are the areas served by the former monopoly investor-owned utilities (IOUs)

IOU Transmission Providers

- AEP Texas Central and North
- CenterPoint Energy
- Oncor Electric Delivery
- Texas-New Mexico Power Company



How is ERCOT unique?

- **ERCOT is the only entity of its type in the United States.**

No other entity performs a similar range of grid, wholesale market and retail market operations.

- **ERCOT is the only ISO/RTO* with responsibilities as:**
 - **Registration agent for Retail Electric Providers (REPs)**
 - **Centralized hub for retail transactions**
 - **Centralized load profiling and data aggregation**

**Source: The Value of Independent Regional Grid Operators, November 2005*

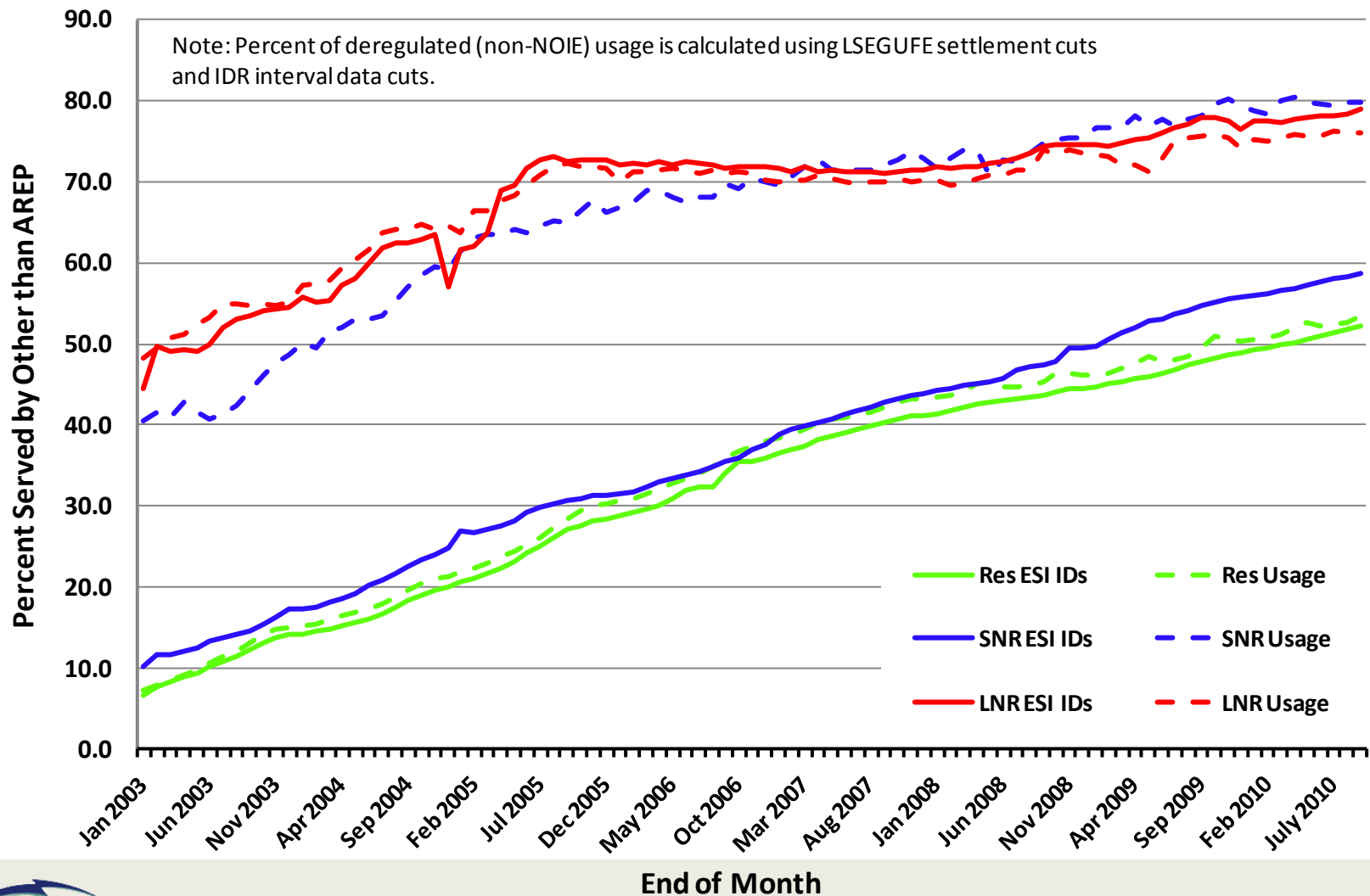
ERCOT's role in the retail market

- Maintains the Centralized Registration Database
- *ERCOT's role as the neutral registration agent for the customers has been cited as a major reason for success of this market.**
- Serves as the transaction clearing house for all retail transactions
 - Switches
 - Move-ins
 - Move-outs
 - Maintains Electric Service Identification IDs (ESI ID)
 - POLR transitions
 - Continuous service agreements
- Compiles the information on market metrics
- Addresses data discrepancies and dispute resolutions
- Acts as Flight Administrator for Retail Qualification and Testing

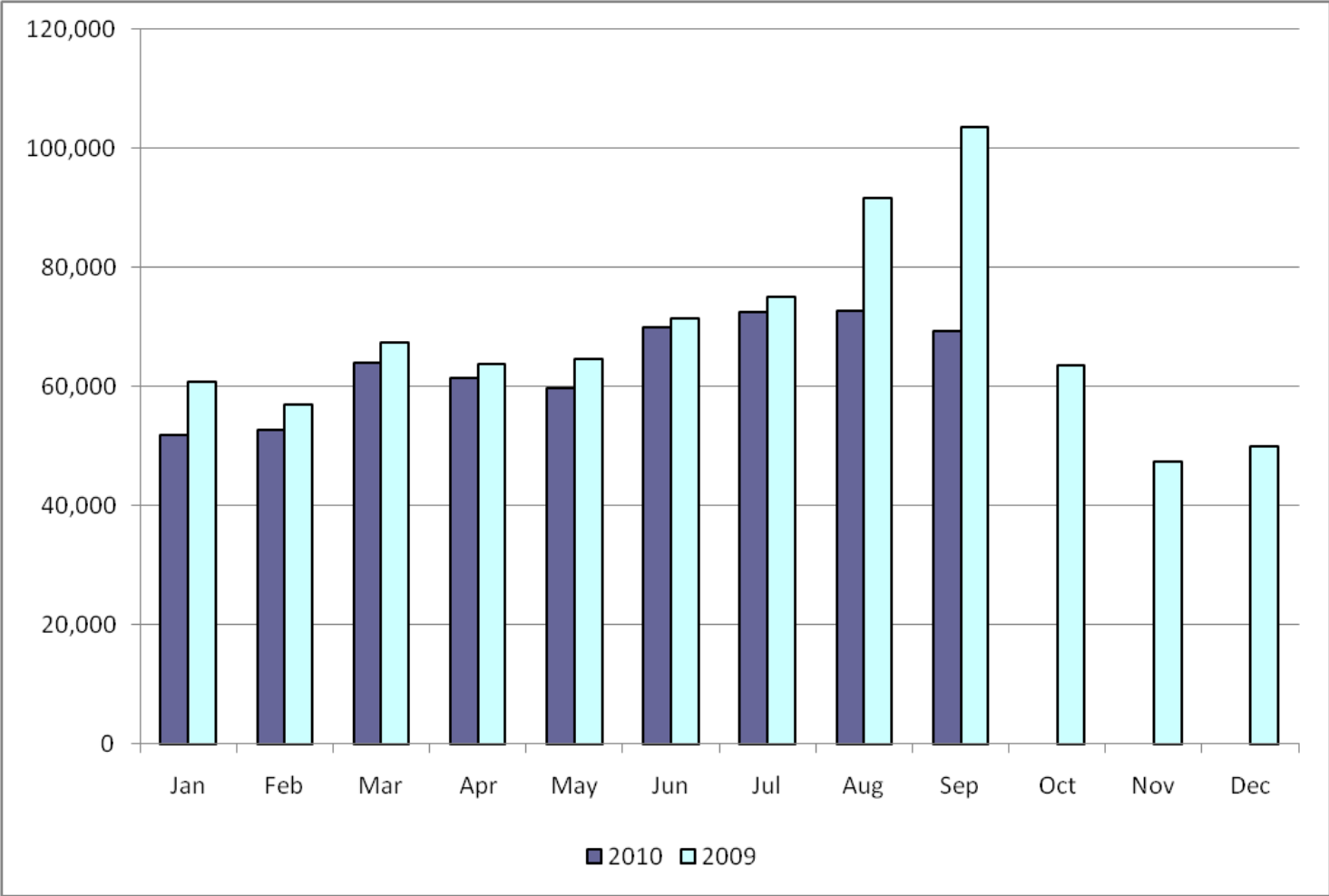
**Source: Energy Retailers Research Consortium, 2008 and 2007; Alliance for Retail Choice, 2007; Center for the Advancement of Energy Markets, 2003*

Switching away from the incumbent

Active ESIID Counts and Usage for the Previous Month Not Served by their AREP - Historical

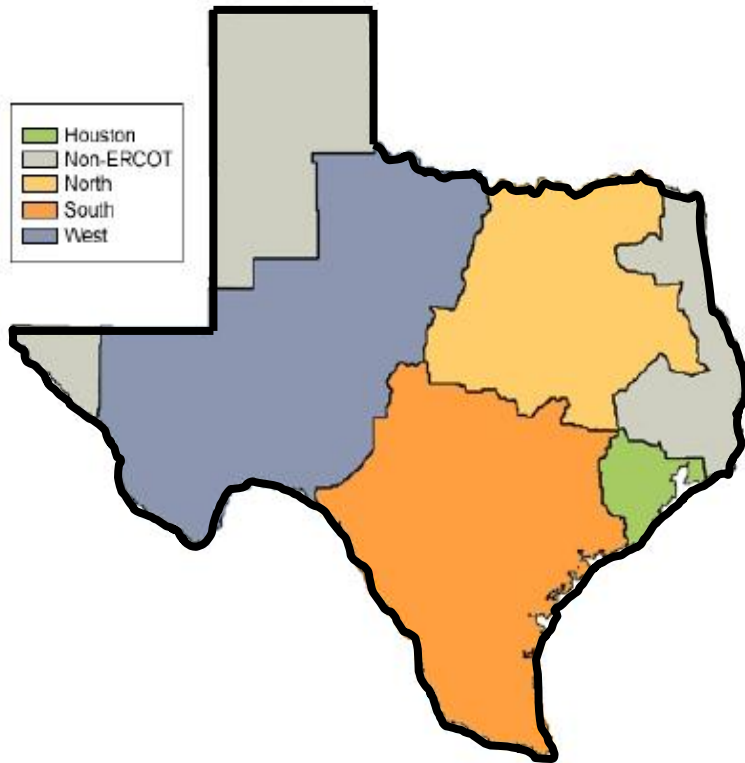


Volume of switches in the ERCOT market

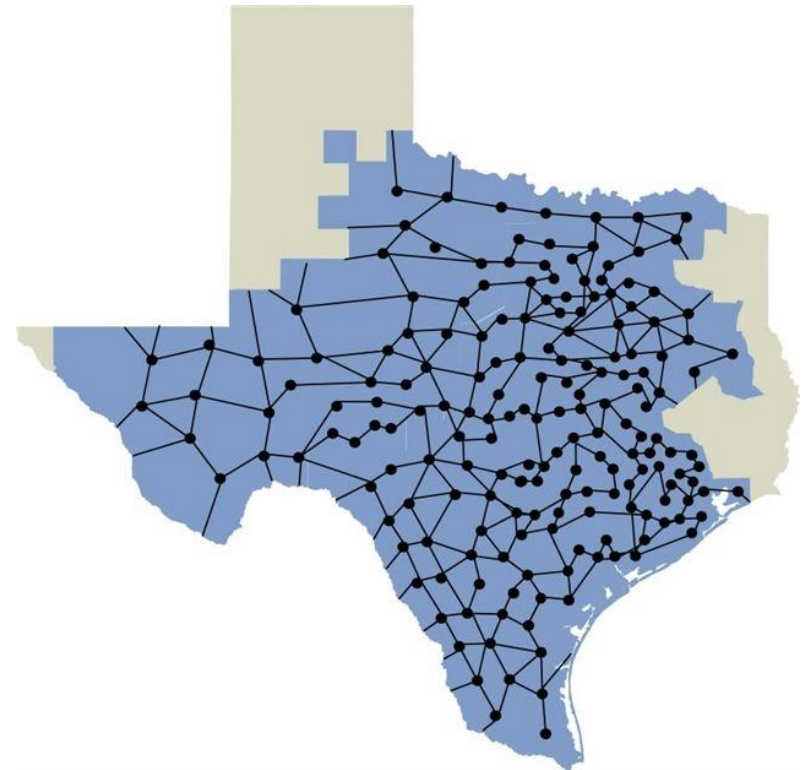


The Nodal market will 'go live' on December 1st

ERCOT Zonal



ERCOT Nodal



Benefits of a Nodal market

- **More accurate management of congestion**
 - *More accurate unit information.*
- **Encourage resource competition**
 - *Nodal prices send proper price signals to encourage additional generation and/or transmission investment in proper locations.*
- **Precise market-based pricing of generation**
- **More granular price signals**
- **An independent cost-benefit analysis showed efficiencies of **\$5.6 billion** over ten years as a result of implementing a Nodal market in ERCOT**

Nodal training for REPs is a priority at ERCOT

- **Market participant training has been an integral part of the transition to the nodal market and ERCOT has been delivering training to market participants including retail electric providers since 2006.**
 - More than 800 representatives from more than 70 retail electric providers have attended one or more of ERCOT's nodal market training courses.
 - More recently, ERCOT completed 38 site visits to qualified scheduling entities - the entities that represent retail electric providers in the ERCOT market.
 - ERCOT has hosted four nodal market workshops for retail electric providers – which were attended by more than 300 representatives either in person or through Webex. Another workshop is planned for November 9th in Austin.
 - ERCOT has also participated in workshops for retail electric providers sponsored by other organizations such as the Gulf Coast Power Association.
 - ERCOT will continue to encourage retail electric providers to participate in nodal market training as part of their readiness for the December 2010 nodal market go-live date.

Potential REP issues in the Nodal market

- In order to best hedge against costs in the new Nodal market, REPs must be aware of their existing agreements with suppliers and their customers.
- Specifically, REPs must be aware of costs associated with:
 - Congestion
 - Reliability Unit Commitment (RUC)

