LONG DESCRIPTION: Upon ERCOT's determination of the disposition of an Alternative Dispute Resolution (ADR) proceeding, ERCOT Protocol Section 20.9 requires ERCOT to issue a Market Notice providing a brief description of the relevant facts, a list of the parties involved in the dispute, and ERCOT's disposition of the proceeding and reasoning in support thereof.

Parties: ERCOT, Lonestar Generation LLC (Lonestar) and Bastrop Energy Partners LP (Bastrop)

Relevant Facts:

Lonestar is the Qualified Scheduling Entity (QSE) for Bastrop, the Resource Entity (RE) for BASTEN_CCU. On the morning of 09/23/2019, for the BASTEN_CCU Settlement Point (Resource Node), Lonestar submitted a Day-Ahead Market (DAM) Energy-Only Offer Curve for a fixed quantity, multi-hour block with a single price of $17/MWh and single quantity of 515 MW for Operating Day (OD) 09/24/2019, Hours Ending (HE) 1 – 6. That afternoon, Lonestar was awarded 515 MW of energy for the fixed quantity block at a weighted average price of -$129.78/MWh for OD 09/24/2019, HE 1 – 6.

For several days before and after the OD at issue (09/24/2019), there were outages at a nearby station, which limited getaway paths for generation at the BASTEN_CCU Resource Node, and reduced the available flow under certain contingencies. Also during that time, a binding Transmission Element under two contingencies existed, which caused BASTEN_CCU to have a 100% positive/hurting Shift Factor for those constraints. Consequently, the BASTEN_CCU Settlement Point was significantly impacted for days leading up to and following OD 09/24/2019. In clearing Lonestar's block offer, the price was driven significantly negative due to the binary nature of the fixed quantity block. Nonetheless, the Protocols required ERCOT to award the entire 515 MW block to Lonestar.

On 12/06/2019, Lonestar submitted a request for ADR to recover $454,000.00 as "restitution for damages suffered for [DAM] awards materially different than market supply offer." Lonestar claims that the harm caused by the outcome of the DAM award for the OD at issue "is antithetical to ERCOT's objective in the DAM of promoting economic efficiency in the production of electricity, supporting wholesale competition, and supporting system reliability and operations" and therefore failed to meet the requirements of 16 Tex. Admin. Code (TAC) § 25.501 and underlying Texas statutes. Lonestar argues that Protocol Section 4.4.9.5.1(1)(c)(i) "signals that a DAM award may deviate from a Market Participant's offer price in minor ways due to rounding or algorithm inefficiencies" but that the extreme price deviation was not a "reasonable or justifiable market solution under applicable Laws, Rules, or the ERCOT Protocols… [and] is therefore an error that must be corrected through resettlement."

On 02/19/2020, ERCOT and Lonestar met to discuss Lonestar's ADR request. On 02/28/2020, Lonestar amended its ADR request to assert that the injury it incurred with respect to the OD at issue was caused by the software error that led to DAM price corrections for ODs 09/16/2019 – 09/25/2019[1] and can be addressed via market resettlement or uplift. Specifically, Lonestar claims that when it submitted its DAM Energy-Only Offer for a fixed quantity, multi-hour block for OD 09/24/2019, it relied on pricing information from ERCOT regarding the BASTEN_CCU Resource Node (Settlement Point) for HE 1 – 6 on the days prior to OD 09/24/2019, and Lonestar's injury is "the product of ERCOT's error" because prices for ODs

[1] This price correction was the result of a software implementation error whereby ERCOT's Market Management System (MMS) inadvertently modeled all withdrawn Outages for DAM and Reliability Unit Commitment (RUC), rather than just those undergoing restoration. *See* ERCOT Board Meeting, Item No. 9.1, DAM Price Correction for ODs Sept. 16 - 23, 2019 (Dec. 10, 2019). Note: On 09/24/2019, ERCOT staff became aware of the software implementation issue and on 09/25/2019, corrected prices for ODs 09/24/2019 and 09/25/2019 within the timeline set forth under Protocol Section 4.5.3(4). However, ERCOT was required under Protocol Section 4.5.3(5) to seek Board approval to correct prices for the remaining impacted ODs (i.e., 09/16/2019 – 09/23/2019). *See* Market Notices M-A100319-01 through -03 at ERCOT Market Notice Archives.

09/16/2019 – 09/25/2019 were subsequently revised by ERCOT. Lonestar notes that price corrections for ODs 09/16/2019 – 09/25/2019 revised prices for the BASTEN_CCU Settlement Point to prices similar to those experienced by Lonestar for the OD at issue. Lonestar further maintains that "because the negative pricing outcome, which caused the Bastrop to be run at a loss, is not the product of a functioning, competitive wholesale day-ahead market, as required by applicable PUCT rules."

<u>ERCOT's Disposition/Reasoning</u>:

ERCOT has determined that the appropriate disposition of this ADR proceeding is to deny Lonestar's request for relief.

16 TAC § 25.501, *Wholesale Market Design for the Electric Reliability Council of Texas*, provides that the ERCOT Protocols "shall be developed with consideration of microeconomic principles and shall promote economic efficiency in the production and consumption of electricity; support wholesale and retail competition; support the reliability of electric service; and reflect the physical realities of the ERCOT electric system," and requires ERCOT to "determine the market clearing prices of energy… using economic concepts and principles… ." 16 TAC § 25.501(a). 16 TAC § 25.503, *Oversight of Wholesale Market Participants*, establishes the standards that the Public Utility Commission of Texas (Commission) use to monitor activities of ERCOT and Market Participants to ensure compliance with the Public Utility Regulatory Act (PURA) and the ERCOT Protocols, as related to wholesale markets. The rule provides that the standards contained therein are necessary to, in pertinent part, "ensure that all wholesale market participants observe all scheduling, operating, reliability, and settlement policies, rules, guidelines, and procedures established in the ERCOT procedures." *See* 16 TAC § 25.503(a)(4). It also provides that Market Participants "shall be knowledgeable about ERCOT procedures," and "if a Market Participant disagrees with any provision of the protocols… it may seek an amendment of the Protocols as provided for in the Protocols…" *See* 16 TAC §§ 25.503(f)(1) & (2). Furthermore, "when a Protocol provision or its applicability is unclear, or when a situation arises that is not contemplated under the Protocols, a [Market Participant] seeking clarification of the Protocols shall use the Protocol Revision Request (PRR) process provided in the Protocols" or if impractical due to time, "seek an official Protocol interpretation or clarification from ERCOT… ." *See* 16 TAC §§ 25.503(f)(11) & 25.503(i).

When a QSE submits a DAM Energy-Only Offer Curve for a fixed quantity block, the Protocols make clear that a fixed quantity block can clear at a price below a QSE's offer price for that block. With respect to the submission of energy offers, Protocol Section 4.4.9.5.1(1)(c)(i) specifically provides that if a DAM Energy-Only Offer Curve is submitted for a fixed quantity block, that block "***may clear at a Settlement Point Price less than the offer price for that block***" (emphasis added). In addition, with respect to DAM clearing, Protocol Section 4.5.1(4)(c)(ii)(D) provides that "because quantity block bids and offers cannot set the Settlement Point Price, ***a quantity block bid or offer may clear in a manner inconsistent with the bid or offer price for that block***" (emphasis added). Since Nodal go-live, ERCOT and stakeholders have been aware that when a fixed quantity DAM bid/offer is the next economic bid/offer to clear, the bid could clear well above the bid price or the offer well below the offer price.[2] Because a fixed quantity block

[2] Prior to the implementation of the nodal market, the Texas Nodal Transition Plan Task Force (TPTF), in drafting Nodal Protocol Revision Request (NPRR) 153, *Generation Resource Fixed Quantity Block*, recognized the possibility that allowing Generation Resources to offer Off-Line Non-Spin in fixed quantity blocks could create undesirable pricing outcomes. *See e.g.* TPTF meetings: Nov. 6, 2006 - Texas Nodal Market MMS Requirement Specification For DAM and SASM, Section 2.3; Dec. 4, 2006 - Review of ERCOT Response to TPTF comments on MMS Requirement Documents, Slide 5; and Oct. 8, 2007 - MMS DAM and SASM Requirements, Appendix 7, Pricing Issues with Fixed Quantity Block Offers and Bids in the DAM. On various occasions in 2012 and 2013, ERCOT staff reminded stakeholders of the potential market clearing price impacts associated with NPRR153—specifically that DAM clearing prices could be artificially reduced. *See e.g.,* QMWG meeting (Aug. 9, 2012): ERCOT Presentation - DAM Clearing Behavior for Fixed Quantity Blocks; Wholesale Market Subcommittee (WMS) meeting (May 8, 2013): WMS Meeting Minutes (05/08/2013); ERCOT Presentation - NPRR153 Pricing Impacts.

offer cannot set the clearing price, the QSE of such fixed quantity block bid/offer becomes a "price-taker" once selected in the commitment phase of the DAM. In June 2013, ERCOT sponsored NPRR548, *Remove NPRR153 Grey Boxes and Clarify Fixed Quantity Block Treatment in the DAM*, in relevant part, to clarify how the DAM is designed to price and clear fixed quantity blocks. Therein, ERCOT reasoned:

> Due to the nature of the market design and mixed integer programming clearing process, fixed quantity block bids can clear at prices that exceed their bid price, and ***fixed quantity block offers can clear at prices that are below their offer price***, when the blocks are marginal. ***Block offers and bids do not set the clearing price and are essentially price-takers once selected in the commitment phase of the DAM***. Further, fixed quantity blocks may fail to clear when seemingly economic based on the final Settlement Point Price. ***The language introduced in Section 4.5.1 clarifies that, for certain products, the clearing prices are subject to these inconsistent pricing scenarios. The intent is to improve market education and minimize disputes based on this market design construct*** (emphasis added).[3]

In September 2013, NPRR385, Negative Price Floor, became effective, which added an administrative SPP floor for the DAM and Real-Time market to counteract issues caused by exceedingly negative prices. An administrative price floor is the limit at which a price can clear. Protocol Section 4.6.1 specifies an administrative price floor for all DAM Settlement Point Prices (SPPs) (DASPPs) of -$251/MWh.

16 TAC § 25.501 requires ERCOT to operate the DAM and determine market clearing prices of energy, as provided for under the ERCOT Protocols. Protocol Sections 4.4.9.5.1 and 4.5.1 are clear that a DAM Energy-Only Offer for a fixed quantity block may clear in a manner inconsistent with the offer price for that block. Indeed, precise Protocol language was created to clarify the risk of a price deviation with the submission of fixed quantity block DAM Energy-Only Offer/Bid. Moreover, in establishing a specific -$251/MWh DASPP floor, stakeholders placed a limit on what the market is willing to tolerate insofar as negative DASPPs are concerned; the negative DASPPs experienced by Lonestar for OD 09/24/2019 were well above the -$251/MWh DAM price floor. The Protocols are unambiguous, and data has consistently shown that there can be significant pricing deviations for fixed quantity block offers and bids. In determining the market clearing price for Lonestar's DAM Energy-Only Offer for OD 09/24/2019, ERCOT acted under the principles established by stakeholders, as set forth by Protocols, and as permitted under Commission rules.

Lonestar claims that it detrimentally relied on erroneous prices, produced by ERCOT, on the days leading to the OD at issue in submitting its DAM Energy-Offer Curve for a fixed quantity, multi-hour block for OD 09/24/2019, and due to the negative pricing outcome, caused Lonestar to incur a loss. The DAM is a financial-only, co-optimized market wherein "participation [] is voluntary." *See* Protocol Section 4.1(2). Lonestar's submission of an Energy-Only Offer for a multi-hour fixed quantity for BASTEN_CCU Resource Node was purely voluntary, and is not tied to a physical resource. What is more, Lonestar had several alternatives to offering a fixed quantity, multi-block for the OD at issue, none of which would have resulted in economic loss such as that experienced by Lonestar. For example, Lonestar could have submitted a multi-hour variable quantity block for a single price and a single "up to" quantity contingent on the purchase of all offers in that block. Alternatively, Lonestar could have submitted a Resource-specific Energy Offer Curve, or a Three-Part Supply Offer, either of which would have been eligible for a DAM Make-Whole payment. Any of these alternatives would have allowed Lonestar to decrease the MW quantity to align with a particular offer price. Instead however, Lonestar chose to fix the quantity for a six-hour period, risking a price deviation.

[3] *See* NPRR548, Board Report, Revision Description (Nov. 19, 2013).

With respect to Lonestar's claim that it relied on prices that were later corrected in its decision to make a specific block-type offer in the voluntary, financial-only DAM, ERCOT has found no evidence to suggest that ERCOT violated or misinterpreted any other law (statute or Commission rule) that resulted in Lonestar's injury.

For the reasons set forth herein, ERCOT denies Lonestar's request for relief sought in this ADR proceeding.

This Market Notice serves to conclude the ADR proceedings between ERCOT and Lonestar.