

January 7, 2013

Mr. Trip Doggett
President and Chief Executive Office
Electric Reliability Council of Texas
7620 Metro Center Drive
Austin, TX 78744

Dear Mr. Doggett,

On November 29, 2012, North American Electric Reliability Corporation (NERC) released the *2012 Long-Term Reliability Assessment*,¹ an annual report prepared by electric reliability organization on future reliability.² The report assesses the adequacy of the bulk power system (BPS) in the United States and Canada over a ten-year period. The report projects electricity supply and demand, evaluates transmission system adequacy, and discusses key issues and trends that could affect reliability. The 2012 report highlights several key findings and recommendations.

At its November 26, 2012 meeting, the NERC Board of Trustees (Board) discussed its concerns for the situation in Electric Reliability Council of Texas (ERCOT). While it was noted that NERC cannot order the construction of new generation or transmission, NERC is accountable for assessing the current and future reliability of the BPS and informing decision-makers. Therefore, the Board requested that NERC take follow-on actions with the organizations that *are* responsible for resource adequacy to ensure the parties are taking timely action.

As identified in the assessment, one area of concern requiring immediate attention is the projected Planning Reserve Margin levels in the ERCOT assessment area. Capacity resources in ERCOT have drifted to a level below the Planning Reserve Margin target and are projected to further diminish through the ten-year period covered in the assessment. It is clear to me that these levels imply higher reliability risks especially the potential for firm load shed, and ERCOT will need more resources as early as summer 2013 in order to maintain a sufficient reserve margin.

¹ 2012 Long-Term Reliability Assessment: http://www.nerc.com/files/2012_LTRA_FINAL.pdf

² Section 39.11(b) of the U.S. FERC's regulations provide that: "The Electric Reliability Organization shall conduct assessments of the adequacy of the Bulk Power System in North America and report its findings to the Commission, the Secretary of Energy, each Regional Entity, and each Regional Advisory Body annually or more frequently if so ordered by the Commission."

These concerns are not new, as NERC has raised this issue in prior assessments.³ It is my understanding that the ongoing resource adequacy challenges in ERCOT are being addressed through your work with the Public Utility Commission of Texas (PUCT). While some enhancements have already been made, such as increasing the scarcity pricing cap, solutions have not yet sufficiently materialized to address NERC's reserve margin concern. Further, it is still unclear to us how ERCOT intends to mitigate issues that may arise on the current trajectory and when new resources may be available to meet growing demand.

As recommended in the report, ERCOT should consider additional potential solutions to address resource adequacy and provide a plan outlining the measures it is taking to increase reserve margins and ensure reliability. It is essential to send the right reliability signals to prospective generation, and also ensure that the PUCT has sufficient information to fully understand the increasing risks; therefore, ERCOT should continue to provide information, data, and transparent reliability assessments to the PUCT (as well as to Texas Reliability Entity, Inc.) for continued development of solutions the concern of declining reserve margins.

It is essential that NERC understand how ERCOT plans to remedy NERC's concerns. Therefore, I am requesting that you report to NERC, no later than April 30, 2013, ERCOT's plan to address the declining reserve margin and projected capacity shortfall, including a discussion of the risks to reliability if new resources are not constructed or acquired in the short term. The report should provide a summary of actions planned (for both the planning and operations horizons), including the planned timetable by which NERC can track progress with you. To the extent that these actions includes corresponding policy decisions determined at the PUCT level, we would appreciate a summary of these, as well. We invite you to present ERCOT's outlook and plans to address resource adequacy to the NERC Board of Trustees at its May 9, 2013 meeting. Additionally, updated projections will be expected for inclusion in the *2013 NERC Summer Reliability Assessment*.

Once again, thank you for your responsiveness at this critical time in addressing the issues outlined in the assessment and in this letter. It is my intent that these follow-on activities will provide the additional rigor needed to address diminishing reserve margins and emphasize that this is a significant reliability issue.

Sincerely,



Gerry Cauley
President and CEO

cc: W. Lane Lanford, President and CEO, Texas RE
The Honorable Donna L. Nelson, Chair, Public Utility Commission of Texas
The Honorable Kenneth W. Anderson, Jr., Commissioner, Public Utility Commission of Texas
The Honorable Rolando Pablos, Commissioner, Public Utility Commission of Texas

³ 2011 Long-Term Reliability Assessment: http://www.nerc.com/files/2011%20LTRA_Final.pdf

2010 Long-Term Reliability Assessment: http://www.nerc.com/files/2010_LTRA_v2-.pdf