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Expert Finds Flaws in Cost-benefit Analysis of ERCOT Market Overhaul

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A key cost-benefit analysis examining the pending overhaul of the Texas wholesale power market in ERCOT is of questionable accuracy, with a national expert finding errors, unreasonable assumptions, discrepancies and a shortage of economic logic.

The cost-benefit analysis was commissioned by Texas regulators to guide their deliberations over the drastically over-budget and behind-schedule transition to a "nodal" wholesale electricity market. It was conducted by CRA International, a Massachusetts firm, and is scheduled for Public Utility Commission consideration on Wednesday, Jan. 14th.

Given the importance of the issue, a group of Texas municipalities known as the Steering Committee of Cities Served By Oncor engaged nationally renowned utility expert Robert McCullough to review CRA's analysis.

Among McCullough's findings:

he nodal cost-benefit analysis is based on poorly documented and ad hoc adjustments to computer modeling.

*Speculative and erroneous assumptions in the nodal cost-benefit analysis led CRA to massively overestimate the benefits of a nodal market for consumers.

he cost-benefit analysis failed to model data for years in which problems arose in an earlier review of the nodal transition process.

"In some cases, it appears the CRA consultants simply cut and pasted their projections for several years in lieu of conducting actual modeling," said Chris Brewster, an attorney for the Oncor Cities coalition. "The CRA report did not include any meaningful analysis to backup its claims of consumer benefits from nodal. The CRA report contains so many errors and unreasonable assumptions as to be rendered practically useless."

Given the problems, Oncor Cities have called upon the Texas Public Utility Commission to immediately suspend the nodal transition process, and consider ending it permanently. The Cities note that many completed or soon-to-be completed aspects of the market redesign can be used to augment the current zonal market.

To review a copy of the Oncor Cities report, go to www.mresearch.com/reports.html

The Steering Committee of Cities Served by Oncor

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