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**PROJECT NO. 55999**

**REPORTS OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS**

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**PUBLIC UTILITY COMMISSION  
OF TEXAS**

**COMMENTS OF HUNT ENERGY NETWORK, LLC ON  
ERCOT'S REQUEST FOR GOOD CAUSE EXCEPTION**

Hunt Energy Network, LLC (HEN) files these comments in response to ERCOT's request for a good cause exception from the 2026 Ancillary Service Methodology the Commission approved on November 6, 2025. HEN develops and operates dispatchable resources that participate in ERCOT's energy and Ancillary Service markets. HEN is therefore directly affected both by the error at issue and by the price formation it distorted. HEN urges the Commission to: (1) take up this issue immediately in order to rectify ongoing noncompliance with its Order, (2) deny ERCOT's request, and (3) direct ERCOT to procure ECRS and Non-Spin in the hourly quantities the corrected model produces, effective September 1, 2026, for the following reasons:

1. Price formation consistent with operational reliability practice is essential to both short-term market decisions — resource commitment, dispatch, availability — and long-term investment decisions in the resources needed to support operational reliability; and

2. Under-procuring ERCOT Contingency Reserve Service (ECRS) and Non-Spinning Reserve Service (Non-Spin) results in reliance on ERCOT out-of-market actions, such as Reliability Unit Commitment (RUC), to ensure operational reliability.

Actions like this ERCOT under-procurement and its continued reliance on RUC undermine price formation. Investors don't get the signal to build. Texas doesn't get the front-of-meter dispatchable generation we must have to reliably serve future demand. There is a direct cause and

effect here. The Commission should use this opportunity to remind ERCOT and the industry that a disciplined, accountable well-run market is the best way to achieve reliability and affordability.

**I. “Nothing broke” is not a reliability standard, and the reason nothing broke is itself the problem.**

ERCOT’s request rests on a single proposition: nothing broke, therefore nothing was broken. Richard Feynman disposed of that reasoning in 1986 — “when playing Russian roulette, the fact that the first shot got off safely is little comfort for the next.” ERCOT has been posting an average of roughly 3,700 MW less reserve capacity in each hour than its own Commission-approved methodology required, on the basis of a model it can no longer reproduce, and it asks the Commission to ratify the shortfall because the weather cooperated. Ancillary Services are bought against the year that very rarely happens. A mild year is not evidence they were unneeded; it is the *only* condition under which an error of this size could go unnoticed.

ERCOT does not extend its own logic forward. Having told the Commission that above-minimum real-time procurement covered the combined RRS and Reg-Up capacity, ERCOT states that for September through December it “does not intend to rely on that outcome.” Request at 7. HEN agrees. That concession is by itself sufficient reason to deny the request.<sup>1</sup>

The exposure was real even though the outcome was allegedly benign. For eight months ERCOT’s minimum AS quantity was roughly 3,700 MW per hour less than its own methodology found necessary, reliability was preserved by substituting out-of-market intervention and unpriced

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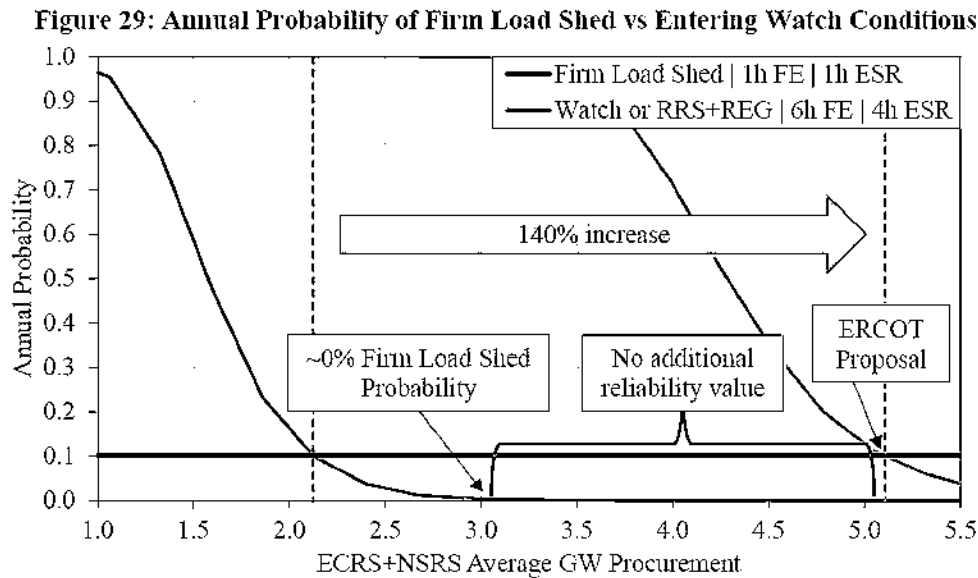
<sup>1</sup> On August 19, 2026, ERCOT posted updated minimum Non-Spin quantities effective September 1, 2026, implementing the plan described in its request. The update raises Non-Spin in a limited number of month-hour combinations, primarily overnight, so that combined ECRS and Non-Spin is no less than combined Reg-Up and RRS. HEN does not question the step, but it should not be mistaken for a remedy. On HEN’s calculation from ERCOT’s posted quantities, it only reduces roughly ten percent of the average 3,700 MW shortfall. It is benchmarked to Reg-Up and RRS rather than to the quantities the corrected model produces, and so does not move procurement toward the Commission-approved methodology in any hour.

headroom for the reserves the Commission required, and that substitution is the harm rather than the cure. It suppresses the very price signal that induces resources to be available, to return from outage quickly, and to be built at all. That is how ERCOT's Ancillary Service shortfall becomes a reliability problem in our energy-only market: not in the mild year, but in the commitment and investment decisions that the mild year's suppressed prices fail to support. ERCOT therefore cannot maintain that under-procuring the minimum required Ancillary Services had little or no reliability consequence while making no attempt to quantify how much additional reliance on RUC and other out-of-market actions its shortfall produced, or what those actions did to price formation.

## **II. In an energy-only market, the price signal is the reliability program.**

ERCOT is an energy-only market. The market depends on energy and ancillary service price signals to make short- and long-term decisions that directly impact reliability. The AS Plan and the Ancillary Service Demand Curves that are directly impacted by the minimum AS quantities are how scarcity is priced; under RTC+B they perform the function the ORDC adder performed before. Under-estimating the minimum AS quantities an average of 3,700 MW in each hour did not merely suppress MCPCs for ECRS and Non-Spin. It also suppressed energy and other ancillary service prices in every tight hour of 2026 to date. Suppliers who committed capital against the revenue expectations of the Commission-approved 2026 methodology have been settled against a curve the Commission never approved.

The IMM has stated its preference for market-based solutions to resolving the missing money problem<sup>2</sup> and yet opposes determining AS quantities that result from ERCOT’s operational reliability goals.<sup>3</sup> The graph below from the IMM’s 2025 SOM Report illustrates this issue:



*Source: Potomac Economics, 2025 State of the Market Report for the ERCOT Electricity Markets (June 2026), Figure 29 (Annual Probability of Firm Load Shed vs. Entering Watch Conditions).*

The ERCOT Proposal AS procurement amount is set at a level that would avoid having ERCOT declare a “Watch” and avoid committing additional resources through RUC (this amount is prior to arbitrary reduction for “risk credits”). The IMM recommended a less conservative standard, based on an annual firm load shed probability of 0.1. The Commission chose to adopt ERCOT’s Proposal in its November Order. (Winter Storm Uri more than justifies the conservative operations that ERCOT operates under). The market had a reasonable expectation that ERCOT would acquire adequate reserves throughout the year, consistent with the Commission’s Order.

<sup>2</sup> “Focus should be on shortage pricing and new products in-market where needed to provide revenue signals for new investment.” IMM Report, ERCOT Board of Directors, Reliability and Markets Committee, Feb 9-10, 2026.

<sup>3</sup> The IMM would calibrate ECRS and Non-Spin to the probability of firm load shed rather than to the Watch-based criterion under which ERCOT operates, and estimates that ERCOT’s proposal exceeds its own base case by approximately 140 percent. Potomac Economics, 2025 State of the Market Report for the ERCOT Electricity Markets (June 2026), Fig. 29 and accompanying discussion.

The critical problem is when there is a disconnect between ERCOT's conservative operations and the minimum quantities of AS it procures and what it pays for them (ASDCs). Setting ECRS and Non-Spin quantities to some lower amount than to the Watch-based criterion under which ERCOT actually operates, would result in suppressed prices and increased reliance on out-of-market actions (e.g., RUC) rather than proper price formation. This is short-sighted and wrong.

ERCOT's filing does not address the significant harm to proper price formation — essential to the success of market-based solutions in an energy-only market. ERCOT measures the consequences of its error solely in whether the lights stayed on. *In an energy-only market, the price signal is the reliability program.* Degrading it for the year to date, including the traditional peak pricing month of August — and proposing to degrade it for four more months — reduces the incentive to commit and to build precisely the dispatchable capability the State must have. By firmly denying this request, the Commission will send a message to ERCOT, to investors and to customers that the lights will stay on, affordably, when we have a disciplined, accountable well-run market.

### **III. Let's quantify what happened.**

The Commission should determine the size of this error rather than infer it. ERCOT holds the data required to run the counterfactual and has now built the corrected model. A retrospective study of January 1 through August 31, 2026 — comparing realized Ancillary Service and energy prices to those that would have cleared had the Commission's November 6, 2025, order been followed — is the minimum factual record on which the Commission can evaluate ERCOT's assertion that its error was consequence-free. It is also a necessary input to calibrating the 2027 methodology and the ASDCs.

#### **IV. The Commission needs to provide advance guidance for the 2027 Ancillary Service Methodology work at ERCOT**

Beyond this waiver, two key structural flaws deserve the Commission's attention: the structure of the ASDCs under RTC+B and the use of "risk credits" against quantities of AS capacity to be procured. HEN's comments to TAC on this issue, filed concurrently at ERCOT, are attached in the Appendix hereto. The takeaway for the Commission is that a coherent design of AS demand curves is needed. Importing the ORDC from the pre-RTC era was an expedient way to cutover to RTC, but, as the IMM's 2025 State of the Market report shows, the ORDC has been an ineffective tool for price formation. ASDCs should be based on the Commission-determined VOLL and must be synchronized with ERCOT's conservative operation philosophy.<sup>45</sup>

As to the "risk credits" issue, HEN notes that ERCOT does not reduce RRS minimum quantity by counting on "risk credits" from historically available headroom from capacity not providing RRS, because in the tail-end contingency that RRS exists to cover, that headroom may not be there. The same discipline should apply to ECRS and Non-Spin. Free capacity is abundant under ordinary conditions and least reliable during tail-end scarcity events. Crediting it against a reserve requirement converts an insurance product into a bet on a normal year: it destroys any

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<sup>4</sup> The ORDC adder averaged \$0.02 per MWh across all hours of 2025, and was active in only 57 hours. Potomac Economics, 2025 State of the Market Report for the ERCOT Electricity Markets (June 2026), Fig. 5.

<sup>5</sup> At its August 29, 2024 open meeting the Commission approved a Value of Lost Load of approximately \$35,000/MWh for planning purposes, including the reliability standard assessment. See Review of Value of Lost Load in the ERCOT Market, Project No. 55837; The Brattle Group, Value of Lost Load Study for the ERCOT Region (2024). The reliability standard rule, 16 TAC §25.508, was adopted by order in Project No. 54584 on September 9, 2024. That VOLL was not adopted for wholesale market pricing; the VOLL underlying the ORDC and the Ancillary Service Demand Curves remains equal to the system-wide offer cap of \$5,000/MWh. See ERCOT, 2024 Biennial ERCOT Report on the Operating Reserve Demand Curve (November 1, 2024). That gap is the point: the Commission has determined what lost load is worth when it plans the system, while the price formation intended to procure that reliability runs on a value roughly one-seventh as large. The Independent Market Monitor recommends the same correction for the ASDCs: "We recommend \$35 to \$40K per MWh based on recent studies." Potomac Economics, 2025 State of the Market Report for the ERCOT Electricity Markets (June 2026), Executive Summary.

consistency between operational reliability and price formation, and it suppresses both the real-time signal that reserves that capacity and the forward signal that builds it. This inconsistency leads to short- and long-term reliability issues from market operational and investment price signal suppression — thus resulting in unending dependence on ERCOT out-of-market actions like RUC.

That RUC can backstop reliability is not a defense; it is the problem restated.

## **V. The standard for a good cause exception.**

ERCOT answers to this Commission and bears the burden of showing that good cause exists. By statute ERCOT is “directly responsible and accountable to the commission,” which has “complete authority to oversee and investigate” whether ERCOT “adequately performs” its duties. PURA §39.151(d). The rule ERCOT invokes is a single sentence: the Commission “may make exceptions to this chapter for good cause.” 16 TAC §25.3(b). It sets out no test. What the Commission has looked for in practice is straightforward — identify the requirement you cannot meet, explain why, and show that excusing it will not put reliability at risk. ERCOT does none of the three. It does not say compliance was impossible, or that it departed from the methodology for an operational reason; it concedes a modeling error no one caught. It has not measured the harm at all, measuring the consequences of its error only by whether the lights stayed on or no firm load was shed. And where the Commission has granted an exception before, the exception did something — it preserved a schedule, allowed a test to proceed, avoided a worse operational outcome. Here the shortfall has already occurred. An exception cannot prevent it; it can only excuse it after the fact, which is a far weaker thing to ask. As to the months still ahead, ERCOT’s own filing supplies the reason to refuse.<sup>6</sup>

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<sup>6</sup> ERCOT proceeds under 16 TAC §25.3(b), which provides only that “[t]he commission may make exceptions to this chapter for good cause.” The requirement it asks to be excused from is 16 TAC §25.361(b)(16), under which ERCOT must “perform any additional duties required under this chapter, commission orders, and ERCOT rules” —

## **VI. Requested relief.**

HEN respectfully requests that the Commission:

1. Deny the good cause exception, and direct ERCOT to procure ECRS and Non-Spin at corrected-model quantities beginning September 1, 2026.
2. Direct ERCOT to submit its corrected model for independent verification.
3. Direct ERCOT to prepare, subject to independent review, a retrospective study of January 1 through August 31, 2026, quantifying the effect of the under-procurement on Ancillary Service and energy prices — that is, what would have occurred had the Commission’s November 6, 2025, order been followed — and to file the results in this project, together with the model, inputs, assumptions, and code used to produce them, so that the study can be independently replicated.
4. Provide guidance to ERCOT in advance of the 2027 Ancillary Services Methodology process to:
  - (a) eliminate “risk credits” that reduce procurement based on uncommitted capacity that may not be available during the tail events these services exist to cover,
  - (b) to set ASDCs at levels that reflect the reliability value of each service and send accurate scarcity signals under RTC+B, specifically, using VOLL of \$35,000/MWh and probabilities of reserves falling below “Watch” level based on criteria used in conservative operations to determine ASDCs, and

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here, the 2026 ERCOT Methodologies for Determining Minimum Ancillary Service Requirements, approved by the Commission on November 6, 2025. These are the provisions ERCOT itself invokes. See, e.g., Order Granting Good Cause Exceptions, Project No. 55999, Item 157 (Aug. 2025); Order Granting Good Cause Exceptions, Project No. 55999, Item 116 (Apr. 2025) (relying also on PURA §§ 39.151(d), (g-6)).

5. Require ERCOT to publish the model, inputs, and outputs supporting each Ancillary Service methodology, subject to independent review before Board recommendation, so that a Commission-approved requirement is reproducible by the market.

HEN does not seek relief for past noncompliance at this time. Until the magnitude of the price effect is known, no party is positioned to say whether the error was harmless, and HEN reserves its rights accordingly.

HEN appreciates the Commission's consideration of our comments.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Pat Wood, III". The signature is stylized with a large initial "P" and a cursive "W".

Pat Wood, III  
Executive Chairman  
Hunt Energy Network, LLC  
1900 North Akard Street  
Dallas, Texas 75201

Dated: August 20, 2026

## EXECUTIVE SUMMARY

The Commission should take this issue up immediately in order to remedy ongoing noncompliance. It should:

1. Deny the good cause exception, and direct ERCOT to procure ECRS and Non-Spin at corrected-model quantities beginning September 1, 2026.
2. Direct ERCOT to submit its corrected model for independent verification.
3. Direct ERCOT to prepare, subject to independent review, a retrospective study of January 1 through August 31, 2026, quantifying the effect of the under-procurement on Ancillary Service and energy prices — that is, what would have occurred had the Commission’s November 6, 2025, order been followed — and to file the results in this project, together with the model, inputs, assumptions, and code used to produce them, so that the study can be independently replicated.
4. Provide guidance to ERCOT in 2027 Ancillary Services Methodology process to:
  - (a) eliminate “risk credits” that reduce procurement based on uncommitted capacity that may not be available during the tail events these services exist to cover,
  - (b) to set ASDCs at levels that reflect the reliability value of each service and send accurate scarcity signals under RTC+B, specifically, using VOLL of \$35,000/MWh and probabilities of reserves falling below “Watch” level based on criteria used in conservative operations to determine ASDCs.

In denying the petition, the Commission should apply the standard that governs a good cause exception, which would excuse compliance going forward and not ratify a deviation that has already run its course. ERCOT does not contend that compliance was impossible, and has not attempted to measure the harm.

## APPENDIX

### COMMENTS OF HUNT ENERGY NETWORK, LLC TO THE ERCOT TECHNICAL ADVISORY COMMITTEE

*[Filed concurrently with the ERCOT Technical Advisory Committee and attached in full.]*

#### **COMMENTS OF HUNT ENERGY NETWORK, LLC (HEN) ON ERCOT'S 2027 ANCILLARY SERVICE METHODOLOGY**

**TAC Meeting on August 26, 2026**

**Contact: Shams Siddiqi, PhD, Phone: (512) 619-3532, Email: [shams@crescentpower.net](mailto:shams@crescentpower.net)**

Recommended TAC Action: Eliminate “Risk Credits” from ERCOT’s proposed 2027 Ancillary Service Methodology in determining minimum procurement quantities for ECRS and Non-Spin.

Eliminating “Risk Credits” is necessary for the following reasons:

1. Price formation consistent with operational reliability practices are essential for both short-term market-based resource operational, commitment and availability decisions and long-term market-based resource investment decisions to adequately support operational reliability, and
2. Under-procuring ERCOT Contingency Reserve Service (ECRS) and Non-Spinning Reserve Service (Non-Spin) results in reliance on ERCOT out-of-market actions, such as Reliability Unit Commitment (RUC), to ensure operational reliability.

#### **1. Price formation is sacrificed with ancillary service under-procurement – jeopardizing short- and long-term reliability.**

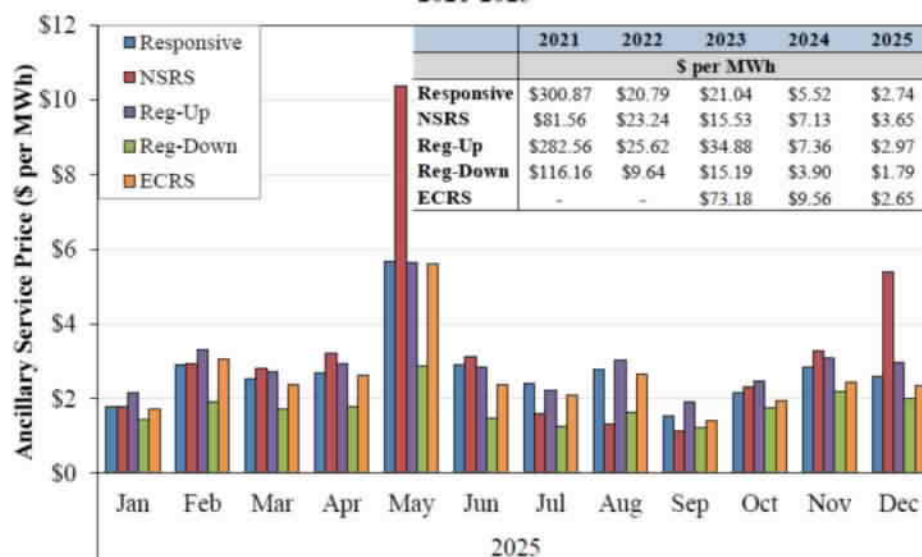
It’s important to understand that even procuring no ECRS and Non-Spin would hardly jeopardize short-term reliability in a mild year – ERCOT has other out-of-market reliability tools, such as RUC, to ensure operational reliability. The short-term adverse reliability impact of ancillary service under-procurement would arise from resources not having the price incentive for

self-commitment, increase availability and minimize outage downtimes. Thus, it's extremely short-sighted of ERCOT to claim that under-procuring minimum required ancillary services by "risk credit" amounts has little to no reliability impact without being able to quantify the amount of increased reliance on RUC and other out-of-market actions and the resulting adverse short- and long-term impact on reliability through distorted price formation.

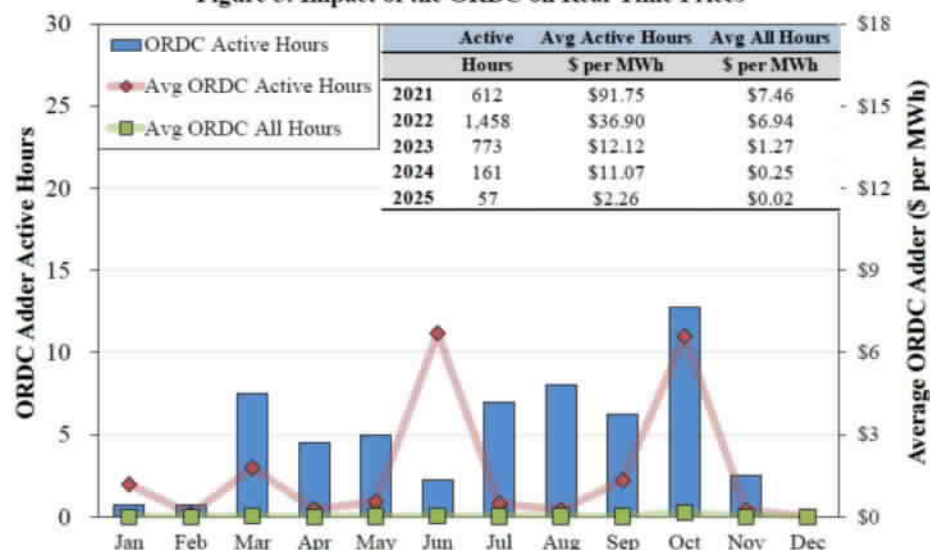
ERCOT is an energy-only market. The market depends on energy and ancillary service price signals to make short- and long-term decisions that directly impact reliability. Minimum AS quantities and the Ancillary Service Demand Curves (ASDCs) that are directly impacted by the minimum AS (or AS Plan) quantities are how scarcity is priced; under RTC they perform the function the ORDC adder performed pre-RTC. Under-procuring minimum ECRS and Non-Spin not only suppresses MCPCs for ECRS and Non-Spin but also suppresses energy and other ancillary service prices in every hour of scarcity.

There is a significant disconnect between scarcity pricing pre-RTC and post-RTC. Pre-RTC, ERCOT procured all AS in DAM with flat ASDCs for all AS at the System-Wide Offer Cap (SWCAP) of \$5,000/MW up to the AS Plan (minimum AS) quantities. Pre-RTC, the scarcity pricing for energy and ancillary services would result in much higher ancillary service prices (set in DAM) and DAM energy prices. However, the seriously flawed ORDC adder calculations set RTM reserve prices at close to nothing. HEN has pointed out this mathematical flaw in the ORDC adder calculations for many years. The following graphs from the Independent Market Monitor (IMM) 2025 State of the Market (SOM) Report point to this discrepancy between 2025 DAM valuation of operating reserves (considering the lowest MCPC for ECRS of \$2.65/MWh) and RTM ORDC adder valuation of operating reserves of \$0.02/MWh for all hours.

**Figure 25: Ancillary Service Prices  
2021-2025**

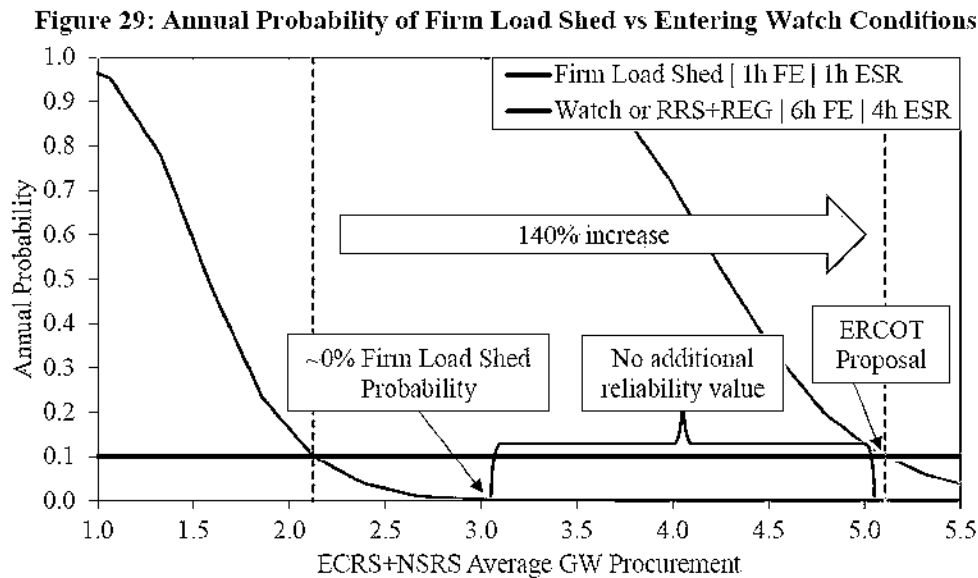


**Figure 5: Impact of the ORDC on Real-Time Prices**



Such undervaluation of operating reserves by the ORDC adder calculation and the use of Value of Lost Load of only \$5,000/MWh (used in the ORDC calculations which determined ASDCs) instead of closer-to-actual \$35,000/MWh are mostly to blame for the “missing money” problem in ERCOT that exacerbates the lack of adequate investment in dispatchable resources. The IMM has stated their preference for market-based solutions to resolving the missing money

problem<sup>7</sup> and yet opposes determining AS quantities based on ERCOT's operational reliability goals. The graph below from the IMM's 2025 SOM Report illustrates this issue:



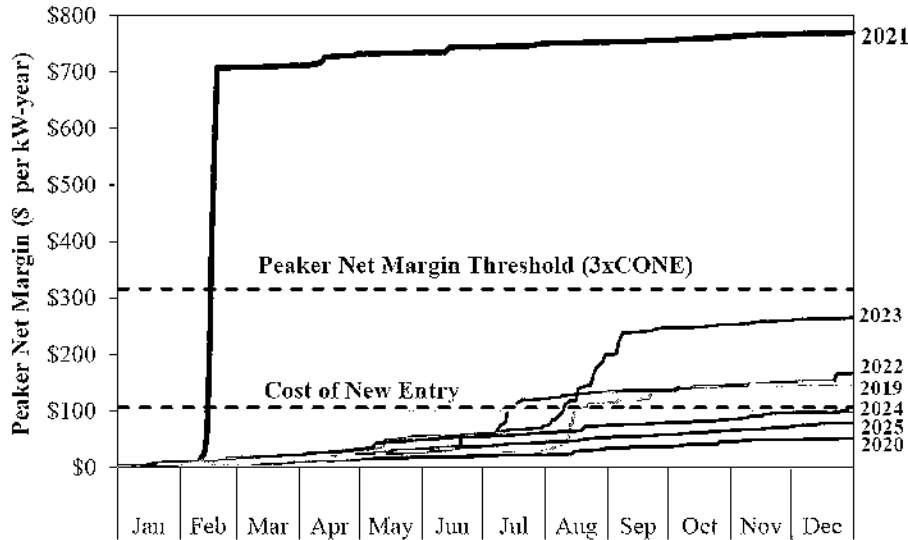
The ERCOT Proposal amount reflects closely ERCOT's conservative operations to avoid declaring a "Watch" and committing additional resources through RUC (this amount is prior to arbitrary reduction for "risk credits"). The dotted blue vertical line in the graph represents the 0.1 annual probability of avoiding firm load shed – given ERCOT's conservative operations, setting ECRS and Non-Spin quantities using that criteria would result in suppressed prices and increased reliance on out-of-market actions (e.g., RUC) rather than proper price formation to incentivize market operations and investment decisions consistent with current ERCOT operational practices.

The "missing money" problem is clearly illustrated in the following graph from the 2025 SOM Report where the Cost of New Entry (CONE) is drawn at \$105/kW-year (whereas the actual CONE is closer to \$293/kW-year<sup>8</sup>):

<sup>7</sup> "Focus should be on shortage pricing and new products in-market where needed to provide revenue signals for new investment." *IMM Report*, ERCOT Board of Directors, Reliability and Markets Committee, Feb 9-10, 2026.

<sup>8</sup> *ERCOT CONE for 2026*, Brattle Group, June 10, 2024.

Figure 57: Peaker Net Margin  
2019-2025



Under-procurement of ECRS and Non-Spin by “risk credit” amounts would be reflected in decreased ASDCs for ECRS and Non-Spin from \$15/MWh floor to pennies in both DAM and RTM for the under-procured amounts and would likely decrease AS and energy prices by at most \$15/MWh during scarcity. However, even that modest amount of decrease is significant in a post-RTC market where AS prices have been very low.

For proper price formation, the AS quantities and ASDCs must reflect ERCOT’s operational realities. Winter Storm Uri more than justifies the conservative operations that ERCOT still operates under. The critical problem is when there is a disconnect between conservative operations and the ASDCs and minimum quantities of AS procured. It is essential in ERCOT’s energy-only market to have operational realities properly reflected in ASDCs and AS quantities to ensure proper price formation. ERCOT determines minimum ECRS and Non-Spin quantities based on avoiding a “Watch” and RUC under ERCOT’s conservative operations – which is the correct criteria. However, ERCOT then arbitrarily reduces that quantity by accounting for “risk credit” from historically available “free” capacity on the system. This is highly misguided – not only should ERCOT not depend on historical “free” capacity that may not be available during

scarcity events (thus dampening much needed scarcity prices and investment signals for the market to address the issue) but also such arbitrary reduction destroys energy and ancillary service price formation for all hours making it inconsistent with operational reliability objectives. This issue, along with proper ASDCs to reflect conservative operations, are essential to proper price formation in the ERCOT energy-only market.

ERCOT's 2027 Ancillary Service Methodology does not quantify or even consider the significant harm to proper price formation from reducing minimum AS quantities by an arbitrary “risk credit” amount. ***In an energy-only market, the price signal is the reliability program.*** Degrading market price signals reduces the incentive to commit and increase availability and to build precisely the dispatchable capability ERCOT must have. By committing to minimum AS quantities as determined to meet operational reliability needs (without arbitrarily reducing that amount with “risk credits”) can send the message to investors and to customers that the lights will stay on, affordably, when we have a disciplined, accountable well-run market.

## **II. “Risk Credit” capacity is not “free” reserve – rather it destroys consistency between operational reliability and price formation.**

ERCOT does not reduce RRS minimum quantity by counting on “risk credits” from historically available headroom from capacity not providing RRS, because in the tail-end contingency that RRS exists to cover, that headroom may not be there. The same discipline should apply to ECRS and Non-Spin. Free capacity is abundant under ordinary conditions and least reliable during tail-end scarcity events. Crediting it against a reserve requirement destroys any consistency between operational reliability and price formation. This inconsistency leads to short- and long-term reliability issues from market operational and investment price signal suppression – thus resulting in unending dependence on ERCOT out-of-market actions like RUC. ERCOT’s

misguided reasoning that under-procurement results in consumer cost savings from suppressed prices is certain to result in increased consumer costs over time from ERCOT out-of-market actions to ensure reliability and market decisions that do not support the desired level of reliability.

That RUC can backstop reliability is not a defense; it is the problem restated. Substituting out-of-market commitment for the price signal is the outcome an energy-only market is designed to avoid.

### **III. Requested Action.**

Modify ERCOT's proposed 2027 Ancillary Services Methodology by eliminating "risk credits" that reduce minimum AS procurement quantities based on uncommitted capacity that may not be available during the tail events these services exist to cover.