



For Immediate Release

For further information:  
Julia Frayer/Marie Fagan  
+1 (617) 933-7200

**"No silver bullet" for solving economic woes for dispatchable resources  
in the Texas wholesale power market**

HOUSTON, April 20, 2017 - At the Spring 2017 conference of the Gulf Coast Power Association, Julia Frayer, Managing Director of London Economics International LLC ("LEI") discussed the pros and cons of potential solutions to low energy prices troubling the economic viability of dispatchable resources in the ERCOT market.

Two proposed solutions drew on the observed experiences of oil markets. For example, if power markets can be incentivized to engage in longer-term contracting, the revenue platform for resources will shift from short run marginal costs of producing energy to the long run marginal costs of sustaining resources to ensure reliable service. Such a long run marginal pricing approach, noted Ms. Frayer, is akin to the "planning price" in the oil sector. In another example, Ms. Frayer likened the positive effects of a global oil market to the observed diversification benefits in electricity markets with expanded geographical footprints. Ms. Frayer explained that opportunities to increase trading with external markets can help ERCOT reduce the symptoms of a low energy prices due to abundant wind generation. Other potential solutions discussed by Ms. Frayer at the conference included quota systems, enhanced ancillary services markets, and mechanisms that introduce additional remuneration to cover fixed costs (like capacity markets).

In comparing the various solutions, Ms. Frayer discussed the tradeoffs between simplicity and effectiveness, as well as adaptability and political palatability. "We need to embark on more detailed due diligence and understand the potential for agreement among stakeholders before we can select the best option for Texas," concluded Ms. Frayer. "The time has finally come for a change, with the technology of power generation finally outgrowing many of the basic economic principles behind conventional market design."

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Julia Frayer is a Managing Director with London Economics International LLC ("LEI"), specializing in economic analysis and evaluation of infrastructure assets as well as market design in deregulated power markets. LEI is a global economic, financial, and strategic advisory professional services firm specializing in energy and infrastructure. LEI has worked extensively in the ERCOT market since introduction of competitive power markets in the late 1990s. LEI has advised large and small market participants, incumbents and new investors, coal and gas-fired generators as well as renewable generation owners, industrial customers, transmission owners and developers, state regulators and the system operator. In addition to its customized, client-driven engagements, LEI publishes a long term market price outlook for the ERCOT market. For further information on LEI's capabilities in the ERCOT market, please contact Dr. Marie Fagan or Ms. Julia Frayer at (617) 933-7200 or go to [www.londoneconomics.com](http://www.londoneconomics.com).