

ERCOT Compliance Process

Approved by the PUCT on July 20, 2006

Introduction

The Electric Reliability Council of Texas, Inc. (“ERCOT”), acting in its role as the certified Independent Organization in the ERCOT Region, monitors compliance with the ERCOT Protocols and Operating Guides needed to safely and reliably operate the electric transmission system and support wholesale and retail markets.¹ The ERCOT Protocols and Operating Guides contain the standards and requirements for planning and operating reliable interconnected bulk electric systems in the ERCOT Region. To ensure that the reliability of the interconnected bulk electric systems is maintained, all Market Participants involved in planning, operating, or using these systems must understand and comply with these requirements. The Public Utility Commission of Texas (“PUCT”) plays a key role in the enforcement process.

P.U.C. SUBST. R. 25.503(j) states:

ERCOT shall develop and submit for commission approval a process to monitor material occurrences of non-compliance with ERCOT procedures, which shall mean occurrences that have the potential to impede ERCOT operations, or represent a risk to system reliability. Non-compliance indicators monitored by ERCOT shall include, but shall not be limited to, material occurrences of schedule control error, failing resource plan performance measures as established by ERCOT, failure to follow dispatch instructions within the required time, failure to meet ancillary services obligations, failure to submit mandatory bids or offers that may apply, and other instances of non-compliance of a similar magnitude.

- (1) ERCOT shall keep a record of all such material occurrences of non-compliance with ERCOT procedures and shall develop a system for tracking recurrence of such material occurrences of non-compliance.
- (2) ERCOT shall promptly provide information to and respond to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of non-compliance with ERCOT procedures. However, this requirement does not relieve the market participant’s operator from responding to the ERCOT operator’s instruction in a timely manner and should not be interpreted as allowing the market participant’s operator to argue with the ERCOT operator as to the need for compliance.
- (3) ERCOT shall keep a record of the resolution of such material occurrences of noncompliance and of remedial actions taken by the market participant in each instance.
- (4) ERCOT shall inform the commission staff immediately if the material occurrence of non-compliance is not resolved after the system operator has orally informed the market participant of the problem. The occurrence is not resolved if:

¹ See Public Utility Regulatory Act (“PURA”), TEX. UTIL. CODE ANN. § 39.151(d) (Vernon 1998 & Supp. 2005).

- (A) the same instance of non-compliance is repeated more than once in a six-month period; or
- (B) the occurrence continues after ERCOT has first orally notified the operator of the market participant, and subsequently notified, orally or in writing, the supervisor of the operator of the market participant.

This Compliance Process document outlines ERCOT’s and Market Participants’ responsibilities pursuant to P.U.C. SUBST. R. 25.503. The process described in this document relates to ERCOT’s role in monitoring compliance with the ERCOT Protocols and Operating Guides as related to the planning and operation of the ERCOT electric power system, but does not preclude ERCOT from taking action to redress the financial consequences of a Market Participant’s failure to provide a service that it has committed to provide. This Compliance Process does not preclude the PUCT from taking action authorized under the Public Utility Regulatory Act (“PURA”) or Commission rules.

Terms

Designated Officer	Officer designated by a Market Participant as contact for escalation of the Compliance Process as set forth in this document.
Compliance Process	Compliance processes as set forth in this document.
Compliance Representative	Person designated by a Market Participant as the primary contact regarding compliance matters.
ERCOT Chief System Operator	Manager responsible for the ERCOT System Operators and ERCOT Control Center operations.
ERCOT Client Services Representative	ERCOT account manager who provides personalized help and one point of contact for managing business transactions and relationships with a specific Market Participant.
ERCOT Compliance	ERCOT Compliance Office.
ERCOT Operations	ERCOT operating and planning groups, including ERCOT’s Operations, System Planning, and Information Technology Support Staff.
ERCOT Operations Support	Technical and engineering support Department in ERCOT Operations, consisting of ERCOT Operations Planning, Operations Support Engineering, Outage Coordination, and Network Model groups.
ERCOT Shift Supervisor	Shift supervisor on duty in ERCOT Operations.
ERCOT System Operator	System operator on duty in ERCOT Operations.

Market Participant Operator	Operator on duty at a Market Participant's facility with the responsibility to control real-time system operations.
PUCT Staff	Executive Director of the PUCT, Director of the Legal Division of the PUCT, and Director of the Electric Industry Oversight Division of the PUCT and/or their designees.

ERCOT Compliance Office

The ERCOT Compliance Office ("ERCOT Compliance") is the independent compliance monitoring authority within ERCOT for reliability-related requirements. ERCOT Compliance reports directly to the ERCOT Chief Executive Officer ("ERCOT CEO") and is not part of ERCOT Operations. With the exception of certain routine real-time compliance monitoring performed by ERCOT Operations,² ERCOT Compliance shall perform the majority of compliance monitoring of Market Participants and ERCOT Operations.

Compliance Templates

ERCOT Compliance has Compliance Templates that provide the details for monitoring non-compliance with existing ERCOT reliability-based Protocols and Operating Guides. Each Compliance Template specifies:

1. The reliability criteria to which the ERCOT Protocol/Operating Guide and its associated measurements apply.
2. The types of Market Participants and ERCOT Operations to which the measurements apply.
3. The requirements to be measured.
4. The timeframe in which compliance is to be measured and/or achieved.
5. The details of what constitutes full compliance with an ERCOT Protocol/Operating Guide and its measurements.
6. Levels for categorizing non-compliance (based upon severity and repetition).
7. The process followed by ERCOT Compliance in its compliance assessment and follow-up actions for the particular function being measured.

Existing Compliance Templates may be amended and others developed as the ERCOT Protocols and Operating Guides are modified. ERCOT Compliance shall provide electronic notice of proposed additions and/or modifications to the Compliance Templates to all Market Participants' Compliance Representatives. ERCOT Compliance will receive and consider comments for no less than twenty (20) calendar days after notice of additions and/or modifications is issued and prior to posting and adopting the final or revised versions of a Compliance Template. The Compliance Templates will be reviewed and approved by the Reliability and Operations Subcommittee ("ROS") and the Technical Advisory Committee ("TAC"). The Compliance Templates will become effective upon approval by the ERCOT Board of Directors.

² For a description of monitoring performed by ERCOT Operations, see the Day-Ahead and Real-Time Operations Compliance Section below.

In addition to the Compliance Templates, ERCOT Compliance utilizes templates developed for the NERC Compliance Program. The NERC Compliance Templates provide specific information regarding the NERC Standards, measurements, compliance and levels of non-compliance. All Compliance Templates are posted on the ERCOT Compliance Web Page (<http://www.ercot.com/mktrules/compliance/index.html>).

The Compliance Templates also outline a resolution process. If ERCOT Compliance concludes that ERCOT Operations or a Market Participant is not in compliance with an ERCOT Protocol or Operating Guide, ERCOT Compliance shall recommend that the non-compliant entity propose for ERCOT Compliance's review and approval specific corrective actions to correct the problem and achieve compliance. ERCOT Compliance shall monitor the non-compliant entity's implementation of the corrective actions and provide reports of non-compliance to PUCT Staff. The PUCT may pursue statutory remedies pursuant to the PURA or Commission rules.

Notice to PUCT

ERCOT Compliance shall inform PUCT Staff when ERCOT Compliance concludes that a material occurrence of non-compliance by a Market Participant Operator is not resolved after the ERCOT Shift Supervisor has orally informed the Market Participant Operator and received confirmation from the ERCOT Chief System Operator of the non-compliance. ERCOT Compliance shall inform PUCT Staff if a material occurrence of non-compliance by ERCOT Operations is not resolved after ERCOT Compliance has orally informed ERCOT Operations of the non-compliance. In all instances, notice to PUCT Staff by ERCOT Compliance shall occur no later than five (5) business days following confirmation of the non-compliance by ERCOT Compliance. ERCOT Compliance will determine whether an occurrence of non-compliance is material based upon information received from ERCOT Operations and the Market Participant Operator or Compliance Representative to determine the level of risk to reliability associated with the non-compliance. The occurrence is not resolved if (a) the same instance of non-compliance is repeated more than once in a six-month period; or (b) the occurrence continues after ERCOT has first orally notified the Market Participant Operator, and subsequently notified, orally or in writing, the Market Participant Compliance Representative.

Notice to Market Participants

Wherever there is a reference to written notice provided to a Market Participant in this Compliance Process, ERCOT Compliance shall provide notice to the Market Participant's Compliance Representative, unless the context specifically requires otherwise. It shall be the responsibility of each Market Participant to maintain and provide to ERCOT Compliance current contact information (*i.e.*, current name, telephone number, street address, and email address) for a Market Participant's Compliance Representative.

ERCOT Compliance shall document each notice it provides to a Market Participant, whether oral or written. Notice shall be documented by reference to written logs, telephonic recordings, copies of email, copies of written correspondence, or other contemporaneous records, unless the Compliance Process provides for a specific method of documentation or notice.

Corrective Actions

If ERCOT Compliance determines that ERCOT Operations or a Market Participant has not complied with an applicable requirement, then ERCOT Operations or a Market Participant must

complete corrective actions as directed by ERCOT Compliance. Additionally, the ERCOT Protocols allow ERCOT to revoke a qualification to provide Ancillary Services for certain compliance violations. Violations will be escalated in successive steps per the Compliance Templates when available, unless the violation occurs during an event where the system is in an emergency condition or the violation is determined to cause or contribute to prolonging an emergency condition. If the matter cannot be resolved by ERCOT Compliance, ERCOT Compliance will refer the matter to PUCT Staff. The PUCT may pursue statutory remedies pursuant to the PURA or Commission rules.

ERCOT's Provision of Information

ERCOT Operations and ERCOT Compliance shall promptly provide information to and respond to questions from a Market Participant's Compliance Representative to allow the Market Participant to understand and respond to alleged material occurrences of non-compliance with the ERCOT Protocols and Operating Guides. This requirement does not relieve the Market Participant Operator from responding to the ERCOT System Operator instruction in a timely manner and does not allow the Market Participant Operator or Compliance Representative to question the need for compliance.

Change Process

ERCOT may amend the terms of this Compliance Process upon forty-five (45) days advance notice to the PUCT via filing proposed changes in the appropriate docket and via email, identifying the docket in which the proposed changes were filed, to all Market Participants' Compliance Representatives registered with ERCOT. ERCOT shall provide notice of the proposed changes and a reasonable opportunity to provide comment to all Market Participants' Compliance Representatives and PUCT Staff prior to initiating the PUCT proceeding (at least thirty (30) days unless urgent conditions require a shorter timeframe). The proposed changes will take effect forty-five (45) days after ERCOT has provided notice of such changes provided that no party has contested the changes at the PUCT and PUCT Staff has indicated, via filed comments, that it has no objection to the proposed changes. If the proposed changes are contested, they will take effect (as written or as modified) only upon Order of the PUCT.

Applicability of Process

This Compliance Process does not apply to instances in which a Market Participant is in violation of the ERCOT Protocols or Operating Guides due to instructions, actions, or inactions taken by ERCOT Operations as documented by written logs, telephonic recordings, copies of email, copies of written correspondence, or other contemporaneous records.

Areas of Compliance Activity

I. Day-Ahead and Real-Time Operations Compliance

ERCOT Operations will routinely monitor Market Participant activities to ensure compliance and to identify material occurrences of schedule control error, failing resource plan performance measures, failure to follow dispatch instructions within the required time, failure to meet ancillary services obligations, failure to submit mandatory bids or offers that may apply, and other instances of non-compliance of a similar magnitude. For operational purposes, ERCOT System

Operators will attempt to resolve problems with Market Participant Operators and document problems in accordance with Operations Procedures.

ERCOT Operations will determine whether an issue of non-compliance is material and should be escalated to ERCOT Compliance based on the following three factors as well as the factors described by the ERCOT Protocols:

- Magnitude of the problem – Occurrence of 100 MW or larger Schedule Control Error (“SCE”) for two hours or more, or frequently repeated (as determined by the ERCOT System Operator) occurrences of a lesser magnitude within a 24 hour period (as determined by the ERCOT System Operator); Resource Plans that fail to provide for scheduled obligation; failure to follow dispatch instructions in the designated time frame; a single occurrence of a complete lack of mandatory bids, or frequently repeated occurrences of a lesser magnitude over a 30 day period (as determined by the ERCOT System Operator); or other failures of a similar magnitude that are not promptly addressed after notice and request for explanation to the Market Participant Operator from the ERCOT System Operator.
- Recurrence – Non-compliance with the same ERCOT Protocol or Operating Guide requirement occurring three or more times during a 72-hour period provided that ERCOT Operations has provided notice to the Market Participant Operator or Compliance Representative of each incident of non-compliance. Such notice may be written or oral, provided the recurrences are verifiable through log entries, data recordings, phone logs or other available data.
- System conditions – Non-compliance with an ERCOT Protocol or Operating Guide that poses a significant and immediate risk to system security. The ERCOT System is considered to be in an insecure state whenever the ERCOT System status is such that the most severe single-contingency presents the threat of uncontrolled separation of cascading outages and/or large-scale service disruption to firm Load (excluding firm Load being served from a radial transmission line) and/or overload of a critical transmission element, and no timely solution is obtainable from the market. One example is an occurrence of 50 MW or larger SCE contributing to frequency error when frequency remains below 59.9 Hz or above 60.1 Hz for an interval. Another example is a failure to respond to Out of Merit Energy (“OOME”) Dispatch Instructions or Verbal Dispatch Instructions (“VDIs”) when a transmission constraint is in first contingency violation or actual thermal overload, and this state has been communicated to the violating party.

A. Market Participants

The ERCOT System Operator shall initiate a dialogue with the Market Participant Operator when information reveals possible non-compliance with the operational requirements of the ERCOT Protocols and Operating Guides by the Market Participant. This dialogue is intended to clarify the issues related to the possible non-compliance and result in an acceptable resolution of the issues. If the matter is not resolved it will be escalated and documented (in logs or other means) for further investigation. The following steps will be followed when an issue must be escalated:

1. If the Market Participant Operator fails to respond to the ERCOT System Operator’s inquiry to the satisfaction of the ERCOT System Operator within two (2) hours,

unless the severity dictates a shorter time frame, or if the Market Participant Operator refuses to respond, the ERCOT System Operator shall immediately escalate the unresolved issue to the ERCOT Shift Supervisor. The ERCOT Shift Supervisor shall attempt to resolve the problem with the Market Participant Operator or Compliance Representative. If the problem is not resolved within four (4) hours of when the incident first occurred, the ERCOT Shift Supervisor shall draft an Incident Report and submit it to the ERCOT Chief System Operator. The Incident Report shall include:

- a. Date and time of incident, including the duration of the problem,
- b. ERCOT Protocol or Operating Guide requirement at issue,
- c. Name of the ERCOT Shift Supervisor on duty at ERCOT at the time of the event,
- d. Name of the Market Participant Operator and/or Compliance Representative contacted,
- e. Brief narrative of the events, corresponding to related ERCOT log entries, and
- f. Response due date and names and addresses of individuals to whom a response is due.

The ERCOT Shift Supervisor shall inform the Market Participant Operator and/or Compliance Representative that the matter is being escalated to ERCOT Compliance. The ERCOT Shift Supervisor shall review log entries to verify that the issue is clearly identified in the logs and sufficiently documented. The ERCOT Shift Supervisor shall also make a log entry of the incident.

2. The ERCOT Chief System Operator (or designee) shall review the draft Incident Report to determine if the incident is accurately documented. ERCOT Compliance shall review and email the Incident Report to the Market Participant's Compliance Representative within three (3) business days of when the incident first occurred, with copies also provided to ERCOT Legal Department, PUCT Staff, and the Market Participant's ERCOT Client Services Representative. The Market Participant's ERCOT Client Services Representative shall forward the Incident Report to other contacts identified by the Market Participant's Compliance Representative on behalf of the Market Participant as appropriate.

The Market Participant's Compliance Representative shall provide a complete response, including a proposed Corrective Action Plan, if applicable, to PUCT Staff and ERCOT Compliance within five (5) business days after the date the Incident Report is issued. This five (5) business-day requirement may be extended upon a showing of good cause by the Market Participant's Compliance Representative and approval by ERCOT Compliance.

ERCOT Compliance will review the Market Participant's response to determine if it is adequate. If necessary, ERCOT Compliance will discuss the matter further with the Market Participant's Compliance Representative. ERCOT Compliance will make a determination regarding the adequacy of the Market Participant's response within three (3) business days and communicate this determination to the Market Participant's Compliance Representative and PUCT Staff. ERCOT Compliance will track the matter until all of the issues are resolved by the Market Participant to the satisfaction of ERCOT Compliance and then issue a written statement that the matter is closed.

3. For all incidents of non-compliance with the ERCOT Protocols, depending on the Market Participant's compliance history and the severity of the non-compliance, ERCOT Compliance will either:
 - a. file the Incident Report in ERCOT Compliance's records with a notation regarding the reason that the incident was not escalated further (e.g., ERCOT Compliance determined that support was lacking for the alleged violation),
 - b. file the Incident Report in ERCOT Compliance's records with a notation that the Incident Report has been successfully resolved, or
 - c. escalate the matter to PUCT Staff through a formal Compliance Violation Notice.

In all cases, ERCOT Compliance will notify the Market Participant's Compliance Representative, ERCOT Legal Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff of the status of the incident. ERCOT Compliance will provide an updated summary listing of all recent Incident Reports to PUCT Staff for review on a quarterly basis and upon request.

4. Notice of matters that are escalated as Compliance Violation Notices will be emailed, return receipt requested, and in most instances sent by ERCOT Compliance via Certified Mail, return receipt requested, to the Market Participant's Compliance Representative within three (3) business days after ERCOT Compliance receives the Market Participant's response to the Incident Report, unless ERCOT Compliance does not have enough information to make a determination regarding whether an ERCOT Protocol or Operating Guide violation has occurred. The ERCOT Legal Department, ERCOT Chief System Operator, the Market Participant's ERCOT Client Services Representative, and PUCT Staff will be copied on all Compliance Violation Notices. The Market Participant's Compliance Representative shall respond to such Compliance Violation Notice within five (5) business days with a Corrective Action Plan signed by the Market Participant's Compliance Representative. Upon receipt from the Market Participant, ERCOT Compliance will forward a copy of the Market Participant's response to PUCT Staff, ERCOT Legal Department, ERCOT Chief System Operator, and the Market Participant's ERCOT Client Services Representative.

ERCOT Compliance will contact the Market Participant's Compliance Representative to discuss the Compliance Violation Notice and Corrective Action Plan. ERCOT Compliance will review the Corrective Action Plan and inform the Market Participant's Compliance Representative, the Market Participant's ERCOT Client Services Representative, ERCOT Legal Department, and PUCT Staff whether the Corrective Action Plan is adequate within three (3) business days after receipt. If not adequate, ERCOT Compliance and the Market Participant's Compliance Representative shall discuss and agree to any changes to the Corrective Action Plan. If agreement cannot be reached, ERCOT Compliance will report the disagreement to PUCT Staff. The Market Participant's Compliance Representative will also inform ERCOT Compliance when modification of the Corrective Action Plan is necessary. Any modification of the Corrective Action Plan must be reviewed and approved by ERCOT Compliance prior to implementation. The Market Participant's Compliance Representative shall inform ERCOT Compliance within one (1) business day of when the approved Corrective Action Plan has been completed.

If the Market Participant's Compliance Representative fails to respond or provides an inadequate response to a Compliance Violation Notice or the Market Participant fails to adhere to the terms and schedule of an approved Corrective Action Plan, as determined by ERCOT Compliance, or the incident is a repeat occurrence involving the same issue within a rolling six-month period (as documented in an Incident Report and confirmed by ERCOT Compliance after receipt of a response from the Market Participant), ERCOT Compliance will notify the Market Participant's Designated Officer and PUCT Staff. ERCOT Compliance will track the matter until all issues are resolved to the satisfaction of ERCOT Compliance and then provide a written statement to the Market Participant's Compliance Representative, ERCOT Legal Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff that the matter is closed.

B. ERCOT Operations

The Market Participant Operator will confer with the ERCOT System Operator when information reveals possible non-compliance with the operational requirements of the ERCOT Protocols and Operating Guides by ERCOT Operations. If information reveals possible non-compliance with the operational requirements of the ERCOT Protocols and Operating Guides by ERCOT Operations, the Market Participant's Compliance Representative will notify the ERCOT Shift Supervisor immediately, and initiate a dialog intended to clarify the issues related to the suspected non-compliance and reach an acceptable resolution of the issues. If the matter is not resolved, the Market Participant's Compliance Representative will document (in logs and other means) and escalate the issue to ERCOT Compliance for further investigation. The following steps will be followed when an issue must be escalated:

1. If the ERCOT Shift Supervisor fails to respond within two (2) hours, unless the severity dictates a shorter time frame, to the Market Participant Compliance Representative's inquiry to the satisfaction of the Market Participant's Compliance Representative, or, if the ERCOT Shift Supervisor refuses to respond, the Market Participant's Compliance Representative will immediately escalate the unresolved issue as a Compliance Incident Report to the ERCOT Chief System Operator by email with a copy to ERCOT Compliance. The Compliance Incident Report shall include:
 - a. Date and time of incident, including the duration of the problem,
 - b. ERCOT Protocol or Operating Guide at issue,
 - c. Name of the ERCOT Shift Supervisor on duty at ERCOT at the time of the event,
 - d. Name of the ERCOT System Operator involved,
 - e. Brief narrative of the events, corresponding to related log entries, and
 - f. Time by which a response is expected.

The ERCOT Shift Supervisor shall also make a log entry of the incident.

2. The ERCOT Chief System Operator (or designee) shall review the Compliance Incident Report and provide a complete response, including a proposed Corrective Action Plan, if applicable, to the Market Participant's Compliance Representative, PUCT Staff and ERCOT Compliance within five (5) business days after the date the Compliance Incident Report is issued.

ERCOT Compliance shall review the ERCOT Chief System Operator's response to determine if it is adequate. If necessary, ERCOT Compliance will discuss the matter further with the ERCOT Chief System Operator. ERCOT Compliance shall make a determination regarding the adequacy of the ERCOT Chief System Operator's response within three (3) business days and communicate this determination to the ERCOT Chief System Operator and PUCT Staff. ERCOT Compliance will track the matter until all issues are resolved by the ERCOT Chief System Operator to the satisfaction of ERCOT Compliance and then issue a written statement that the matter is closed.

3. For all incidents of non-compliance with the ERCOT Protocols, depending on ERCOT Operations' compliance history and the severity of the non-compliance, ERCOT Compliance will either:
 - a. file the Compliance Incident Report in ERCOT Compliance's records with a notation regarding the reason that the issue was not escalated further (e.g., ERCOT Compliance determined that support was lacking for the alleged violation),
 - b. file the Compliance Incident Report in ERCOT Compliance's records with a notation that the Compliance Incident Report has been successfully resolved, or
 - c. escalate the matter to PUCT Staff through a formal Compliance Violation Notice.

In all cases, ERCOT Compliance will notify the ERCOT Legal Department and PUCT Staff of the status of the issue. ERCOT Compliance will provide an updated summary listing all recent Compliance Incident Reports to PUCT Staff for review on a quarterly basis and upon request.

4. Notice of matters that are escalated as Compliance Violation Notices will be emailed, return receipt requested, by ERCOT Compliance to the ERCOT Chief System Operator within three (3) business days after ERCOT Compliance receives the ERCOT Chief System Operator's response to the Compliance Incident Report unless ERCOT Compliance does not have enough information to make a determination regarding whether an ERCOT Protocol or Operating Guide violation has occurred. The ERCOT Legal Department and PUCT Staff will be copied on all Compliance Violation Notices. If applicable, ERCOT Compliance will forward a copy of the Compliance Violation Notices to the Market Participant's Compliance Representative, subject to ERCOT Protocol provisions relating to the disclosure of Protected Information. The ERCOT Chief System Operator shall respond to such Compliance Violation Notice within five (5) business days with a Corrective Action Plan signed by the ERCOT Chief System Operator. Upon receipt from the ERCOT Chief System Operator, ERCOT Compliance will forward a copy of the response to PUCT Staff and the ERCOT Legal Department. If applicable, ERCOT Compliance will forward a copy of the response to the Market Participant's Compliance Representative, subject to ERCOT Protocol provisions relating to the disclosure of Protected Information.

ERCOT Compliance will contact the ERCOT Chief System Operator to discuss the Compliance Violation Notice and Corrective Action Plan. ERCOT Compliance will review the Corrective Action Plan and inform the ERCOT Chief System Operator,

ERCOT Legal Department, and PUCT Staff whether the Corrective Action Plan is adequate within three (3) business days after receipt. If not adequate, ERCOT Compliance and the ERCOT Chief System Operator shall discuss and agree to any changes to the Corrective Action Plan. If agreement cannot be reached, ERCOT Compliance will report the disagreement to PUCT Staff. The ERCOT Chief System Operator shall inform ERCOT Compliance within one (1) business day of when the approved Corrective Action Plan has been completed. All modifications of the Corrective Action Plan must be reviewed and approved by ERCOT Compliance prior to implementation.

If the ERCOT Chief System Operator fails to respond or provides an inadequate response to a Compliance Violation Notice or fails to adhere to the terms and schedule of an approved Corrective Action Plan, or the issue is a repeat occurrence involving the same issue within a rolling six-month period (as documented in a Compliance Incident Report and confirmed by ERCOT Compliance after receipt of a response from ERCOT Operations), ERCOT Compliance shall notify ERCOT's Chief Operating Officer and PUCT Staff. ERCOT Compliance will track the matter until all issues are resolved to the satisfaction of ERCOT Compliance and then provide a written statement to the ERCOT Chief System Operator, ERCOT Legal Department, and PUCT Staff that the matter is closed.

See Attachments A₁ and A₂ for Day-Ahead and Real-Time Operations Compliance Flow Charts.

II. Data Gathering and Reporting Compliance

The Data Gathering and Reporting Compliance Process describes the actions taken by ERCOT Compliance to assess whether ERCOT or a Market Participant is providing the necessary data submittals as specified in the ERCOT Protocols and Operating Guides. A data request must be submitted in writing to the appropriate ERCOT Director (or designee) or Market Participant's Compliance Representative in order to become subject to a compliance action for ERCOT's or a Market Participant's failure to respond. Data submittals include information submitted to the appropriate ERCOT department or ERCOT Compliance, as applicable, by Market Participants or to ERCOT Compliance by the appropriate ERCOT department as required on a periodic or as-requested basis. Market Participants must provide data requested by the appropriate ERCOT department or ERCOT Compliance in accordance with the schedule provided with the request. ERCOT must provide data requested by ERCOT Compliance in accordance with the schedule provided with the request.

The steps used in assessing the Data Gathering and Reporting Process Measures are as follows:

1. ERCOT Compliance either identifies non-performance directly or is informed of a problem by the ERCOT department that made the data request, even in circumstances in which an ERCOT department has made a request on behalf of an ERCOT subcommittee or working group. If a due date is missed or the data does not meet the requirements identified, ERCOT Compliance will send a Compliance Violation Notice via email and Certified Mail, return receipt requested, to the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable), describing the information requested, the relevant requirement, and requesting action to immediately correct the situation. The ERCOT Legal

Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff will be copied on all Compliance Violation Notices.

2. When the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) receives a Compliance Violation Notice, it must provide a response that includes a Corrective Action Plan by the due date specified by ERCOT Compliance. The ERCOT Legal Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff will be copied on all responses.
3. ERCOT Compliance will contact the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) to discuss the Corrective Action Plan or issues raised by the ERCOT or Market Participant response (as applicable). ERCOT Compliance will review the Corrective Action Plan with the ERCOT department that originally requested the data, if appropriate, and will either approve the Corrective Action Plan or advise the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) of the additional measures that must be taken to correct the problem identified by ERCOT Compliance. Any modifications to the Corrective Action Plan must be approved by ERCOT Compliance before they are implemented.
4. Corrective Action Plan implementation will be tracked and failure of ERCOT or a Market Participant (as applicable) to respond to a Compliance Violation Notice or to adhere to the terms and schedule of an approved Corrective Action Plan, or the recurrence of a violation, will result in further action by ERCOT Compliance. In the event of such failure, ERCOT Compliance will notify the ERCOT Chief Operating Officer or Market Participant's Designated Officer (as applicable) and PUCT Staff and take other actions as deemed appropriate by ERCOT Compliance. ERCOT Compliance will track the matter until all issues are resolved to the satisfaction of ERCOT Compliance and then provide a written statement to the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) and PUCT Staff that the matter is closed.
5. The appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) will inform ERCOT Compliance within one (1) business day of the completion of its Corrective Action Plan. The appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) will also inform ERCOT Compliance when modification of the Corrective Action Plan is necessary. Any modification to the Corrective Action Plan must be approved by ERCOT Compliance prior to implementation.

See Attachment B for Data Gathering and Reporting Process Flow Chart.

III. Market Participant Compliance Audit and Self-Certification

Many aspects of ERCOT's or a Market Participant's ability to meet the ERCOT Protocols and Operating Guides requirements are best monitored through a compliance audit process. ERCOT Compliance will use a comprehensive approach and will conduct selective compliance audits focused on particular items when deemed necessary by events or requests.

ERCOT Compliance will staff the compliance audit teams. Personnel from ERCOT Operations, when appropriate, or consultants hired by ERCOT may also participate on the compliance audit teams. The compliance audits will generally apply to ERCOT Operations, Qualified Scheduling Entities (“QSEs”) with Resources, and Transmission Owners (“TOs”) that act as Transmission Operators, although they may also apply to other QSEs, TOs, Distribution Service Providers (“DSPs”), and Resource Entities (“REs”). ERCOT Compliance will perform a comprehensive compliance audit on a three-year cycle for ERCOT Operations, QSEs with Resources, and Transmission Operators.

The following process will be used by ERCOT Compliance to conduct an ERCOT Operations or a Market Participant compliance audit:

1. Arranging and performing the compliance audit:
 - Prior to auditing ERCOT Operations or the Market Participant, the Compliance Audit Team will establish a date for the compliance audit to take place with the appropriate ERCOT Director or the Market Participant’s Compliance Representative (as applicable) and the Market Participant’s ERCOT Client Services Representative.
 - Approximately six (6) weeks prior to the compliance audit, the Compliance Audit Team will provide the appropriate ERCOT Director or the Market Participant’s Compliance Representative (as applicable) with the appropriate “Compliance Review Questionnaire.”
 - The appropriate ERCOT Director or the Market Participant’s Compliance Representative (as applicable) shall provide written answers and return the completed Compliance Review Questionnaire to the Compliance Audit Team Leader by no later than two (2) weeks prior to the compliance audit. ERCOT Compliance will notify PUCT Staff and the Market Participant’s ERCOT Client Services Representative if the completed questionnaire is not returned to the Compliance Audit Team Leader as required.
 - In the case of Market Participant compliance audits, ERCOT Compliance will review the completed Compliance Review Questionnaire with ERCOT Operations as necessary.
 - The Compliance Audit Team will conduct on-site meetings with ERCOT Operations or the subject Market Participant (as applicable). The agenda will include:
 - Reviewing the Compliance Review Questionnaire.
 - Inspecting the facilities and equipment.
 - Interviewing management, ERCOT System Operators or Market Participant Operators (as applicable), and other ERCOT Operations or Market Participant staff as appropriate.
 - Reviewing compliance and operational data.
 - The Compliance Audit Team will complete a “Compliance and Evaluation Form.”

The Compliance Audit Team will require that ERCOT Operations or the Market Participant (as applicable) demonstrate to their satisfaction that the ERCOT System Operators or Market Participant Operators (as applicable), and other applicable staff are familiar with the procedures outlined in the Compliance Review Questionnaire and know how to implement them.

2. Within four (4) weeks following the ERCOT Operations or Market Participant Compliance Audit, the Compliance Audit Team shall provide a finalized report to the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) for review. This report shall include any possible non-compliance issues the Compliance Audit Team discovers and a date by which the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) is required to provide a Corrective Action Plan to address all areas of possible non-compliance. The compliance audit report shall include detailed descriptions of the Compliance Audit Team's findings, including areas of possible non-compliance. Compliance audit findings may also include recommendations to improve coordination with ERCOT Operations or Market Participants that are not necessarily matters of non-compliance. Compliance audit reports and details shall be kept confidential. However, compliance audit reports and details may be provided to PUCT Staff upon request by PUCT Staff. When the appropriate ERCOT Director or the Market Participant's Compliance Representative (as applicable) receives the compliance audit report, it shall provide ERCOT Compliance with a response that includes a Corrective Action Plan, if applicable, by the date specified by ERCOT Compliance. The Corrective Action Plan shall address all findings in the compliance audit report, including areas of non-compliance and all areas that are in need of improvement. The Corrective Action Plan must be signed by the ERCOT Chief Operating Officer or the Market Participant's Designated Officer (as applicable).
3. ERCOT Compliance shall contact the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) to discuss ERCOT Operations' or the Market Participant's response (as applicable) to the compliance audit report. ERCOT Compliance shall review the Corrective Action Plan and inform the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) whether the Corrective Action Plan is adequate. If not adequate, ERCOT Compliance and the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) shall discuss and agree to any changes to the Corrective Action Plan. If agreement cannot be reached, ERCOT Compliance will report the disagreement to PUCT Staff. The appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) shall inform ERCOT Compliance when the approved Corrective Action Plan has been completed. The appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) will also inform ERCOT Compliance when modification of the Corrective Action Plan is necessary. Any modification to the Corrective Action Plan must be approved in advance by ERCOT Compliance.
4. Unless ERCOT Operations' or the Market Participant's response (as applicable) to a compliance audit finding provides cause for reversal of a compliance audit conclusion, findings of non-compliance that indicate violation of requirements in the ERCOT Protocols or Operating Guides will be escalated to PUCT Staff through a Compliance Violation Notice. ERCOT Compliance shall provide notice of matters that are escalated as Compliance Violation Notices by email and via Certified Mail, return receipt requested, to the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable). The ERCOT Legal Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff will be copied on all official Compliance Violation Notices.

5. Corrective Action Plans will be tracked and failure of ERCOT Operations or a Market Participant to adhere to the terms and schedule of an approved Corrective Action Plan, or the recurrence of a violation, will result in further action by ERCOT Compliance. In the event of such failure, ERCOT Compliance will notify ERCOT's Chief Operating Officer or the Market Participant's Designated Officer (as applicable) and PUCT Staff and take other actions deemed appropriate by ERCOT Compliance. ERCOT Compliance will track the matter until all issues are resolved to the satisfaction of ERCOT Compliance and then provide a written statement to the appropriate ERCOT Director or Market Participant's Compliance Representative (as applicable) and PUCT Staff that the matter is closed.

In years when ERCOT Operations or a Market Participant is not audited, ERCOT Compliance may request compliance self-certification from ERCOT Operations or the Market Participant using electronic forms developed and distributed by ERCOT Compliance. The self-certification forms will be sent to the appropriate ERCOT Director or Market Participant's Compliance Representative. ERCOT Operations or the Market Participant, using these forms, must certify that it is in compliance with each designated measure or disclose any non-compliance and submit the self-certification to ERCOT Compliance by the date specified in the request by ERCOT Compliance. The completed self-certification forms must be signed by ERCOT's Chief Operating Officer or the Market Participant's Designated Officer (as applicable). Spot checks may be performed by ERCOT Compliance on a sample of these self-certifications by telephone or site visit. Deficiencies found in self-certifications and spot checks will be treated as if they were compliance audit findings (see Compliance Audit Process above), and Corrective Action Plans will be requested by ERCOT Compliance.

See Attachments C₁ and C₂ for ERCOT Operations or Market Participant Compliance Audit and Self-Certification Process Flow Charts.

IV. Event Investigation

Significant events involving the ERCOT Transmission System and Generation Resources require investigation to determine the root cause and to identify lessons learned and whether the event was an isolated occurrence or one that requires further analysis. This analysis is needed to determine if the system(s) and equipment involved are operating correctly and are being properly applied, maintained, and/or tested.

This document defines the roles of ERCOT Compliance, ERCOT Operations and involved Market Participants as well as the coordination between these entities that is required during an investigation of a significant event. This process is meant to accomplish the following:

1. Identify and define the criteria for determining a significant event.
2. Define the timetable for the investigation process.
3. Define how information gathered from ERCOT Operations and Market Participants and by ERCOT Compliance will be compiled.
4. Define the follow-up process related to remedial action plans or other mitigation efforts that may result from the investigation.
5. Define closure of the investigation process.

A. Significant Events

Significant events are those events that jeopardize the reliability of all or part of the ERCOT System. For purposes of this event investigation process, significant events include, but are not limited to, the following:

1. Emergency Electric Curtailment Plan (“EECP”) implementation
2. Emergency Notice issued
3. Simultaneous loss of any combination of three generating units, transmission lines, and autotransformers (138 kV and above)
4. Special Protection System (“SPS”) activation
5. Remedial Action Plan (“RAP”) or Mitigation Plan (“MP”) implementation requiring load shedding
6. Under frequency relay operations (or frequency deviations greater than 0.3 Hz from scheduled frequency)
7. Sustained voltage deviations greater than 5% on 345 kV system
8. First contingency security violations for significant transmission elements (list of elements to be defined)
9. Failure of computer systems at ERCOT, QSE, or TO
10. Voltage collapse on portions of 138 kV or 345 kV system
11. Loss of an ERCOT, QSE, or TO control center
12. Black Start Plan initiation
13. Uncontrollable loss of 150 MW or more of firm load shed for more than 15 minutes from a single incident
14. Any event determined by the ERCOT Reliability and Operations Subcommittee (“ROS”) to be significant
15. ERCOT failure to meet NERC Performance Standards related to frequency control or transmission security

B. DOE Reportable Events

There are several Department of Energy (“DOE”) reportable events required of electric utilities and reliability coordinators. When a Market Participant reports an event to DOE, the Market Participant shall concurrently provide a copy of the report to ERCOT Operations.

The events which require reporting to the DOE as of June 1, 2006 are as follows:

1. Uncontrolled loss of 300 MW or more of firm system load for more than 15 minutes from a single incident.
2. Load shedding of 100 MW or more implemented under emergency operational policy.
3. Electrical System separation (islanding) where part or parts of a power grid remain(s) operational in an otherwise blacked out area or within the partial failure of an integrated electrical system.
4. System-wide voltage reductions of 3% or more.
5. Public appeal to reduce the use of electricity for purposes of maintaining the continuity of the electric power system.
6. Actual physical attack that causes major interruptions or impacts to critical infrastructure facilities or to operations.
7. Suspected physical attacks that could impact electric power system adequacy or reliability; or vandalism, which target components of any security systems.
8. Actual cyber or communications attack that causes major interruptions of electrical system operations.

9. Suspected cyber or communications attacks that could impact electric power system adequacy or vulnerability.
10. Fuel supply emergencies that could impact electric power system adequacy or reliability.
11. Loss of electric service to more than 50,000 customers for 1 hour or more.
12. Complete operational failure or shutdown of the transmission and/or distribution electrical system.

C. Event Identification

ERCOT Operations shall identify and report significant events that come to its attention to ERCOT Operations Support and ERCOT Compliance. ERCOT Operations shall record significant events in the Operations logs and notify ERCOT Compliance and ERCOT Operations Support by email within one (1) hour after the event occurs. ERCOT Compliance will notify PUCT Staff and ROS of significant events within one (1) business day after ERCOT Compliance determines that the event requires further investigation. ERCOT Compliance will report all reportable significant events and provide the status of on-going investigations at the next regularly scheduled ROS Meeting and as requested by PUCT Staff.

D. Fact Gathering

Much of the initial fact gathering regarding these events will be conducted by ERCOT Operations Support. The essential information of the event – such as specific information on what units tripped, which transmission facilities operated, where under frequency relays tripped, amount of load shed, system frequency deviations, duration of event, procedures followed, etc. – will be compiled by ERCOT Operations Support using data available from ERCOT's systems. ERCOT Operations Support will make initial information requests to Market Participants' Compliance Representatives to validate ERCOT data or supply missing data. From this baseline data, ERCOT Operations Support will construct the approximate timeline and sequence of events in a brief report, and indicate additional details needed from Market Participants. ERCOT Operations Support will forward the report to ERCOT Compliance within ten (10) business days after the event has come to the attention of ERCOT Operations. ERCOT Compliance will make additional requests for data from ERCOT Operations and involved Market Participants as needed. Information must be provided to ERCOT Compliance within five (5) business days of the request, unless a different deadline is specified by the ERCOT Protocols or Operating Guides, or ERCOT Compliance. ERCOT Compliance will assume these fact-gathering responsibilities currently held by ERCOT Operations Support upon receipt of sufficient human and information resources.

E. Investigations

ERCOT Compliance will investigate the event using the data gathered from ERCOT Operations and Market Participants. From the data gathered, ERCOT Compliance will attempt to determine the cause(s) of the event.

ERCOT Compliance will draft a report detailing the event and make recommendations that will include, as necessary and appropriate, actions required to avoid future occurrences of the event. If necessary for report development, ERCOT Compliance may solicit input from the ROS. The report will be distributed to and discussed with the ROS as directed by the

ROS Chair, and a copy will be provided to PUCT Staff. Depending on the seriousness of the event, reports in most cases shall be completed by no later than sixty (60) calendar days after ERCOT Operations receives notice of the event. If ERCOT Compliance is unable to complete its report within sixty (60) calendar days, ERCOT Compliance shall notify the ROS by no later than forty-five (45) days after ERCOT Operations receives notice of the event of the date it expects its report to be complete and provide an explanation of why the report could not be completed within sixty (60) calendar days.

F. Follow Up

ERCOT Compliance shall follow-up with Market Participants and ERCOT Operations (as applicable) on any remedial action plans or other corrective actions that are identified during or as a result of the investigation. ERCOT Compliance shall report to the ROS (at the next regularly scheduled ROS meeting) and PUCT Staff when the investigation is closed.

If the results of an investigation indicate that reliability has been compromised due to an ERCOT Protocol or Operating Guide violation, ERCOT Compliance will escalate the event as a Compliance Violation Notice in a timely manner. ERCOT Compliance will deliver the Compliance Violation Notice by email and via Certified Mail, return receipt requested, to the Market Participant's Designated Officer or ERCOT Chief Operating Officer (as applicable). The ERCOT Legal Department, the Market Participant's ERCOT Client Services Representative, and PUCT Staff will be copied on all official Compliance Violation Notices.

When the ERCOT Chief Operating Officer or the Market Participant's Designated Officer receives a Compliance Violation Notice, it must provide a response that includes a Corrective Action Plan by the due date specified by ERCOT Compliance. ERCOT Compliance will contact the ERCOT Chief Operating Officer or the Market Participant's Designated Officer to discuss the Corrective Action Plan or issues raised by the ERCOT or Market Participant response (as applicable). ERCOT Compliance will review the Corrective Action Plan, and will either approve the Corrective Action Plan or advise the ERCOT Chief Operating Officer or the Market Participant's Designated Officer of the additional measures that must be taken to correct the problem identified by ERCOT Compliance. Any modifications to the Corrective Action Plan must be approved by ERCOT Compliance before they are implemented. Corrective Action Plan implementation will be tracked and failure of ERCOT or a Market Participant (as applicable) to respond to a Compliance Violation Notice or to adhere to the terms and schedule of an approved Corrective Action Plan, or the recurrence of a violation, will result in further action by ERCOT Compliance. In the event of such failure, ERCOT Compliance will notify the ERCOT Chief Operating Officer or Market Participant's Designated Officer (as applicable) and PUCT Staff and take other actions as deemed appropriate by ERCOT Compliance. ERCOT Compliance will track the matter until all issues are resolved to the satisfaction of ERCOT Compliance and then provide a written statement to the ERCOT Chief Operating Officer or the Market Participant's Designated Officer (as applicable) and PUCT Staff that the matter is closed.

If the investigation indicates that ERCOT Protocols or Operating Guides revisions are required, the ROS will address such revisions.

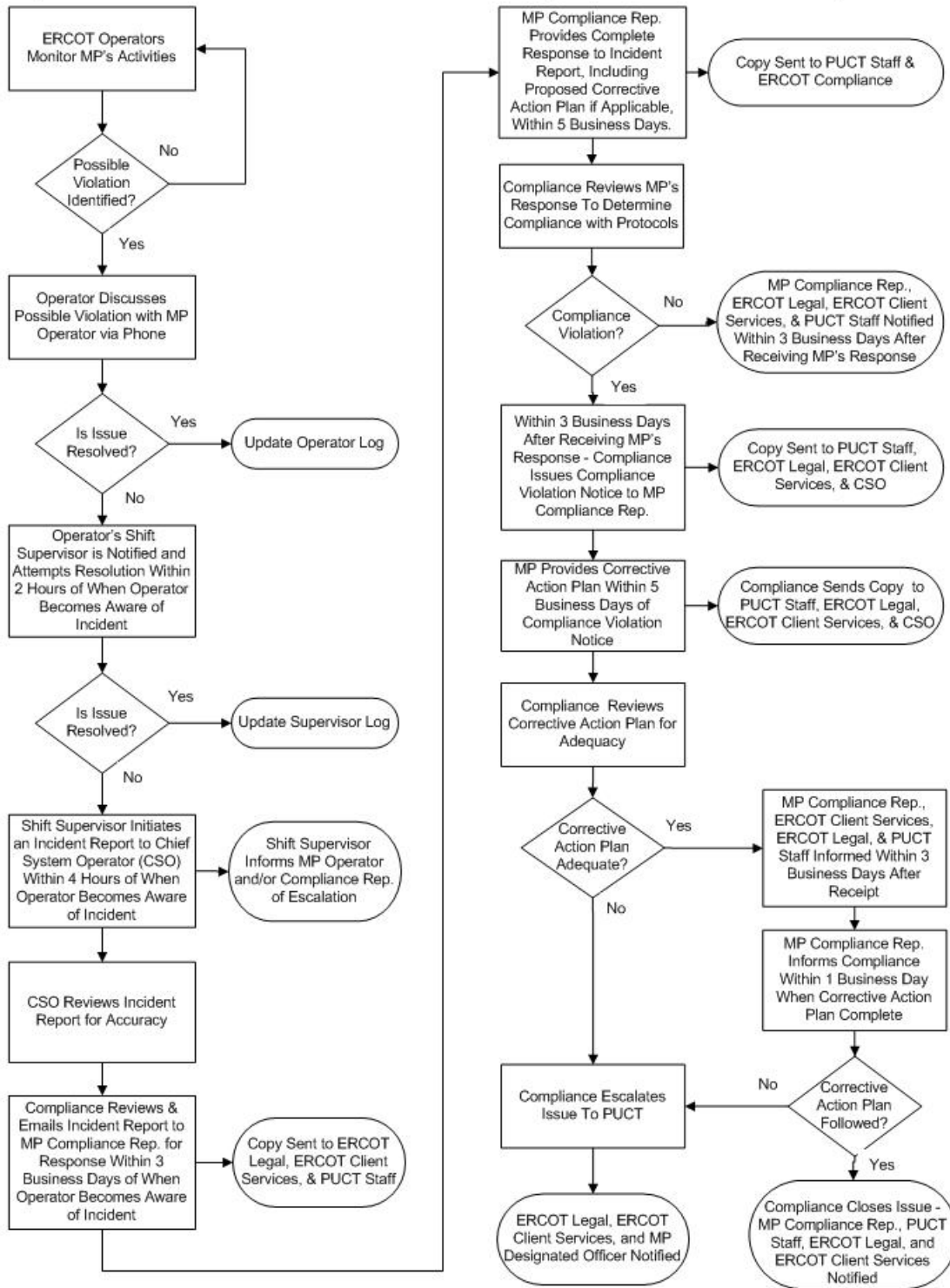
ERCOT Compliance shall file and post the report, subject to ERCOT Protocol provisions relating to the disclosure of Protected Information, on the ERCOT Compliance Web Page after the investigation has been closed.

See Attachment D for the Event Investigation Process Flow Chart.

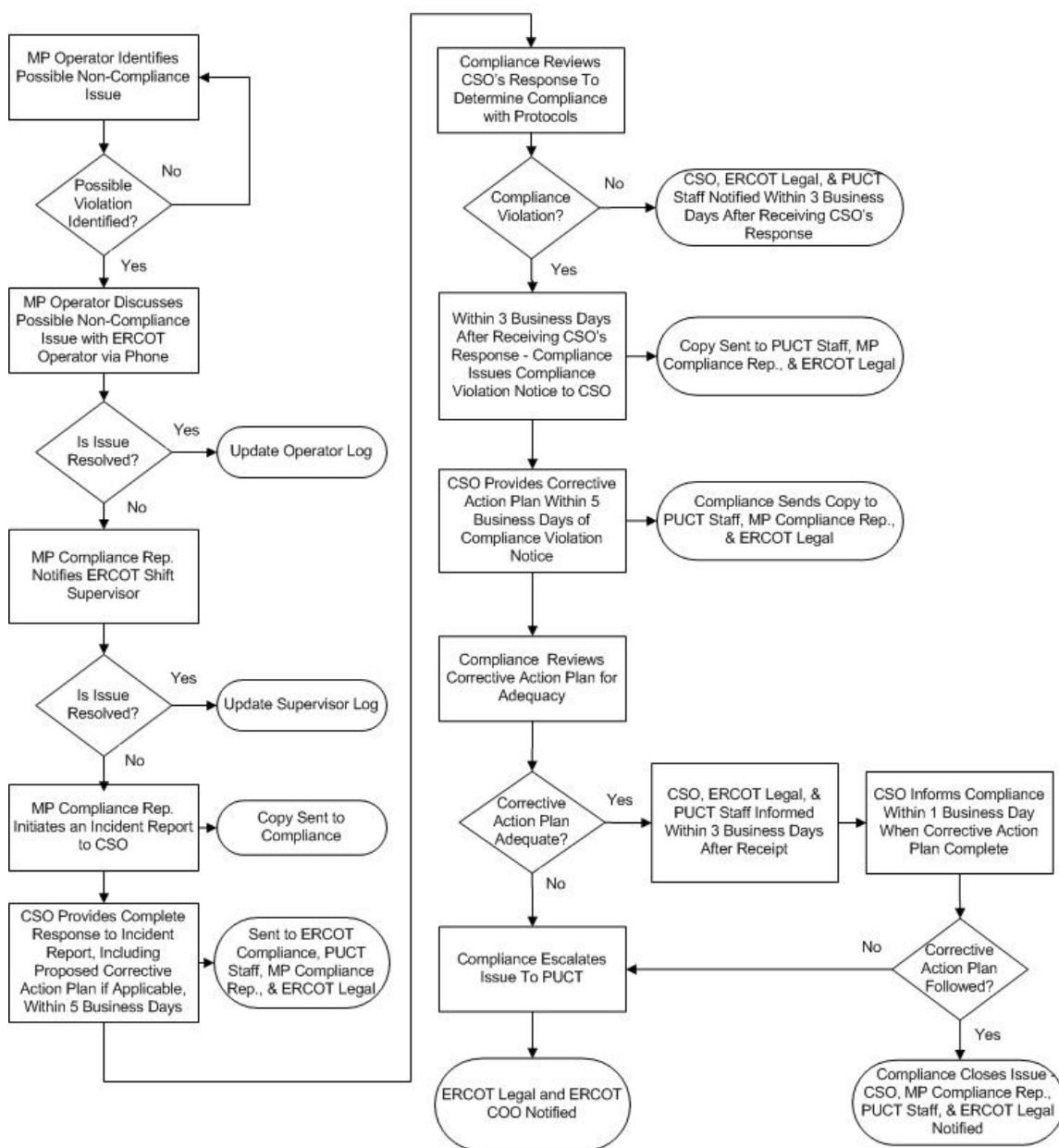
V. Other Violations that Impede Operations or Reliability

In the event that ERCOT experiences circumstances (outside of real-time operations) where material occurrences of non-compliance with ERCOT Protocols or Operating Guides have the potential to impede ERCOT operations or represent a risk to system reliability, ERCOT Compliance shall work with the Market Participants or ERCOT Operations to remedy the non-compliance. If compliance is not achieved by the Market Participant or ERCOT Operations after ERCOT Compliance has provided oral or written notice to the Market Participant's Compliance Representative or appropriate ERCOT Director (as applicable) and a reasonable timeframe to respond, ERCOT Compliance shall report the non-compliance to PUCT Staff within three (3) business days of the Market Participant's or ERCOT Operations' deadline for response. ERCOT Compliance shall also report to PUCT Staff any such violation repeated by the same Market Participant or ERCOT Operations within a six-month period.

Day Ahead and Real-Time Operations Compliance

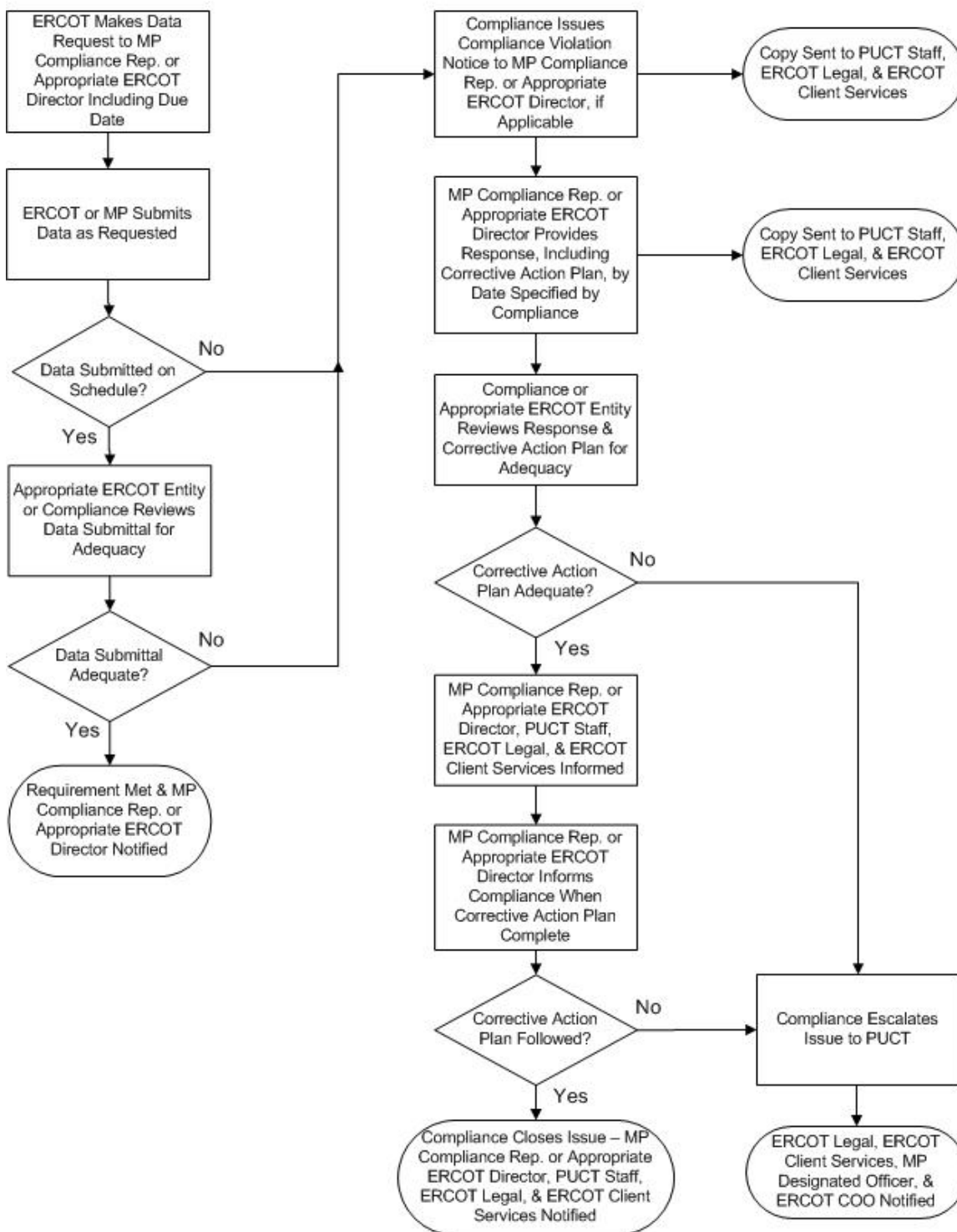


Day-Ahead and Real-Time Operations Compliance

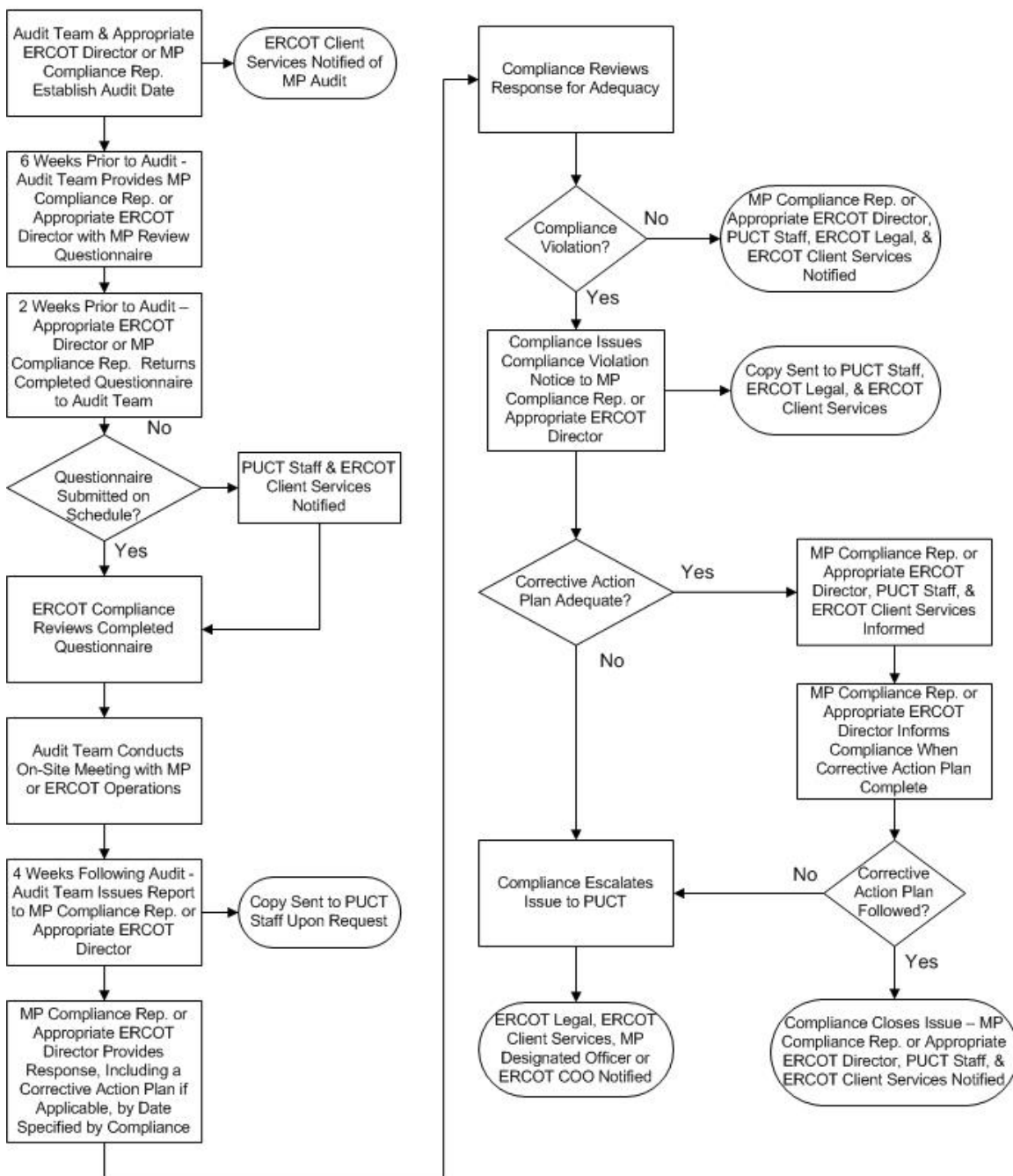


Attachment B

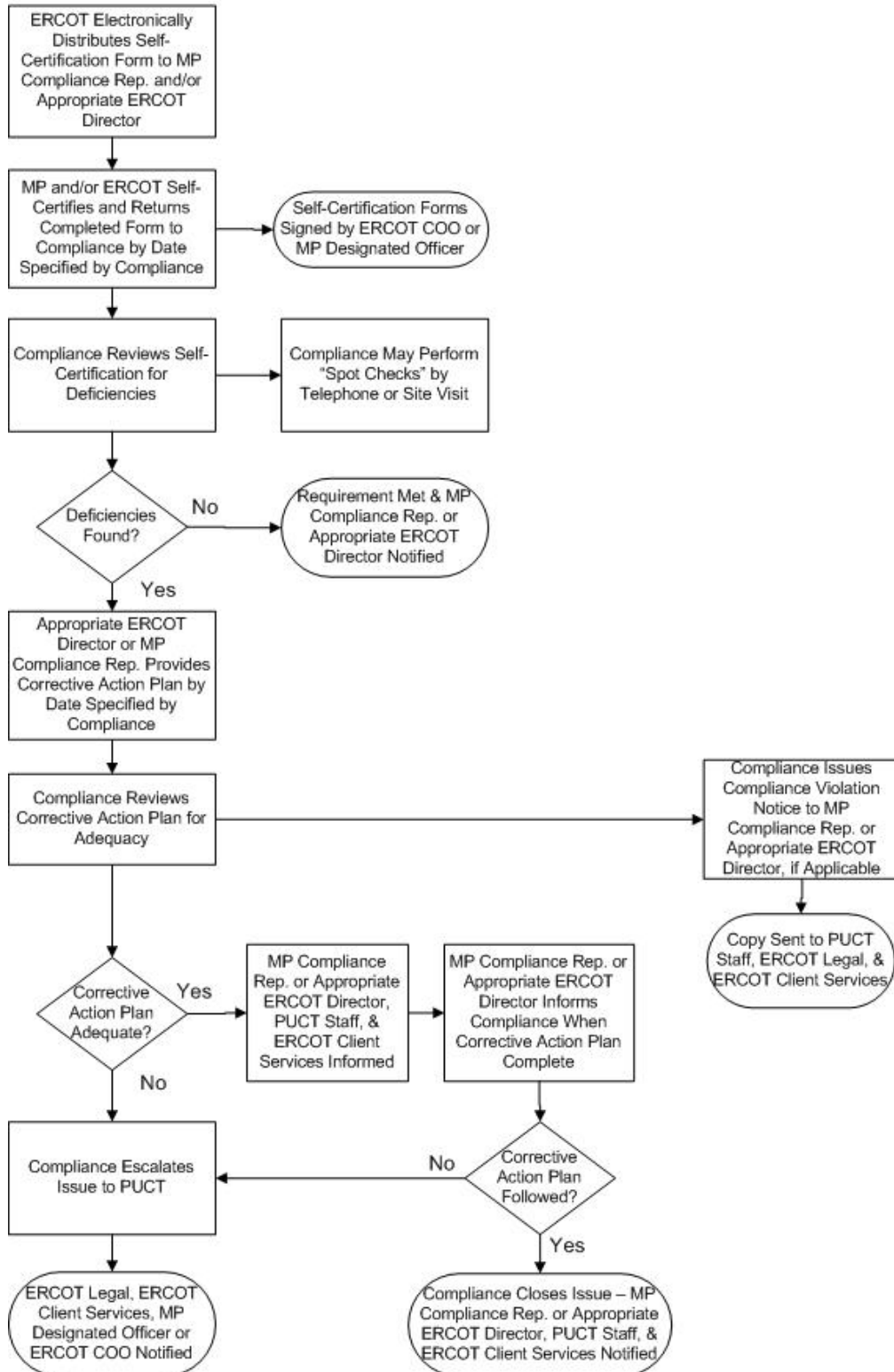
Data Gathering and Reporting Process



Audit Process



Self-Certification Process



Event Investigation Process

