



ERCOT Report

Electric Reliability Organization &
Regional Entity for the ERCOT Region

Thomas F. Schrader, President and CEO

Sam Jones, COO

House Committee on Regulated Industries

April 18, 2006

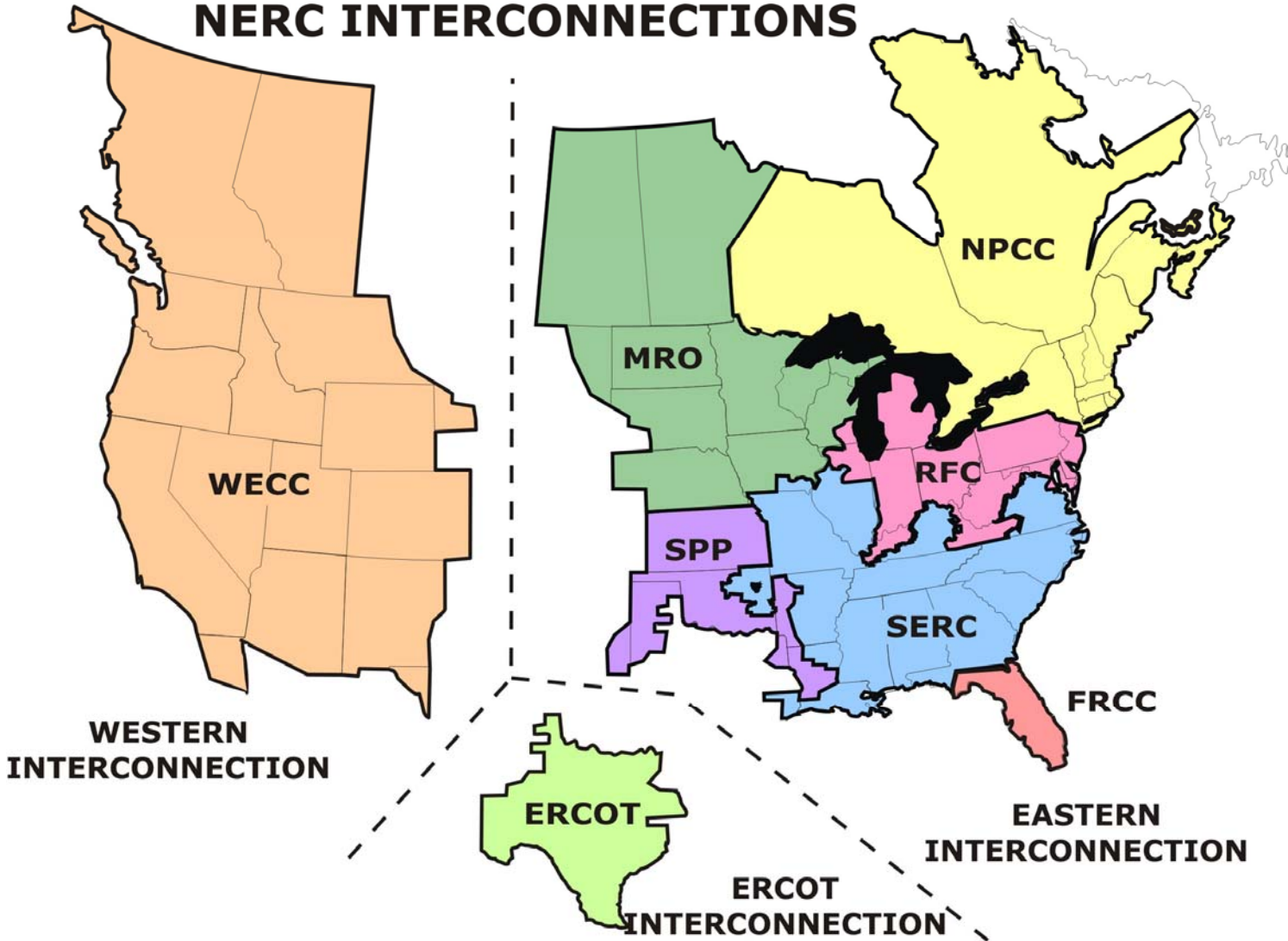
1. **ERCOT Background**
2. **ERCOT's Role in Reliability**
3. **Federal Energy Policy Act**
4. **NERC's Transition to the Electric Reliability Organization**
5. **Regional Entity for the ERCOT Region**

ERCOT Vision

*ERCOT's Vision
is for Texas
electricity
customers to
realize the
greatest value
possible from
reliable electric
power supplies
and access to
competitive
markets
for electricity.*

North American Interconnections & NERC Regions

NERC INTERCONNECTIONS



ERCOT and SPP are the only ISOs that also serve as Regional Reliability Councils

ISO Responsibilities

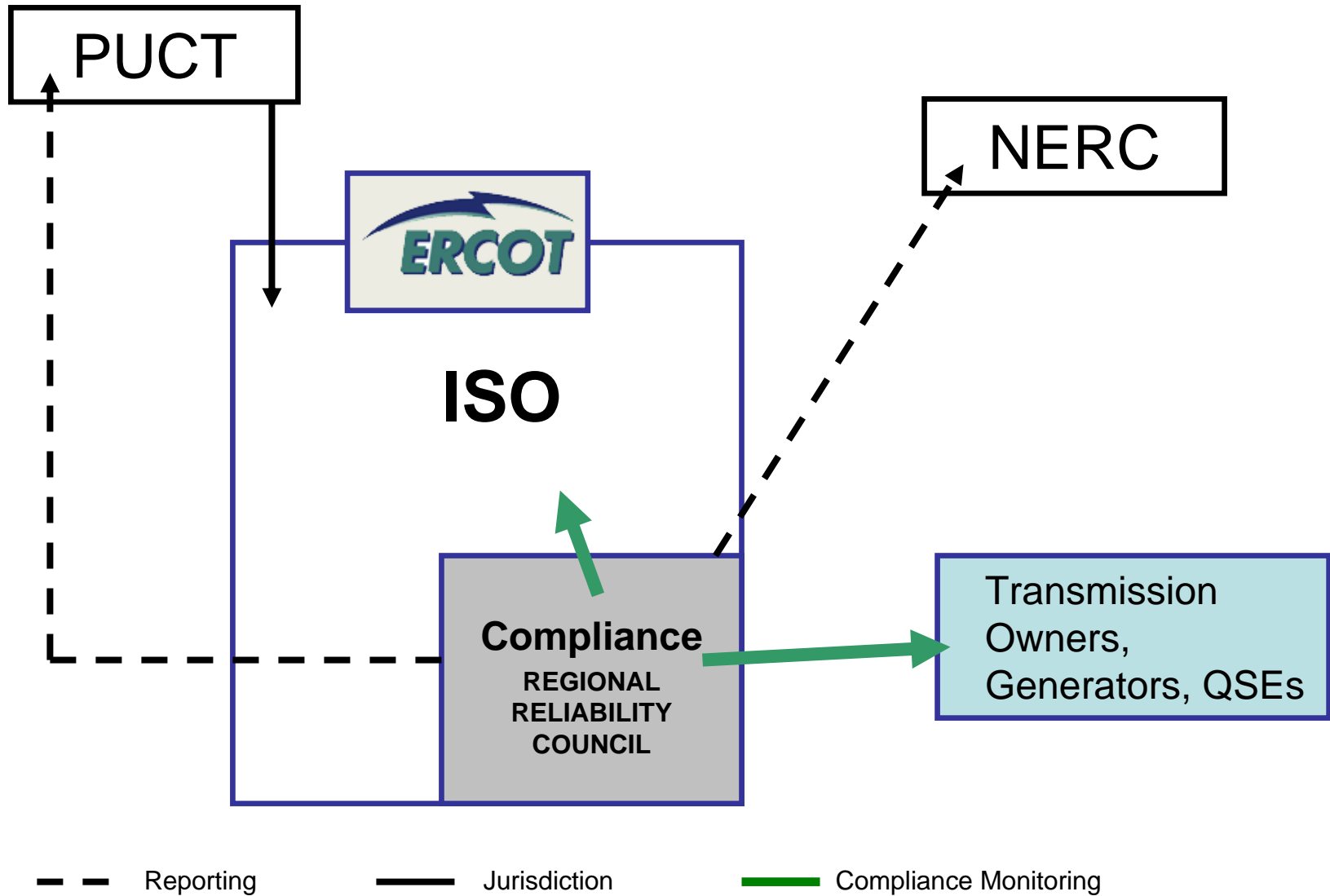
- **Reliability**
 - Operate the grid
 - Plan transmission
 - Provide timely & accurate information on grid & market conditions
- **Ensure open access to the grid**
- **Wholesale energy accounting**
- **Retail market transaction clearinghouse**

Compliance Role

- **Review/audit compliance with NERC Standards & ERCOT criteria by:**
 - ISO grid operations & system planning
 - Transmission owners
 - Generators
 - Qualified Scheduling Entities

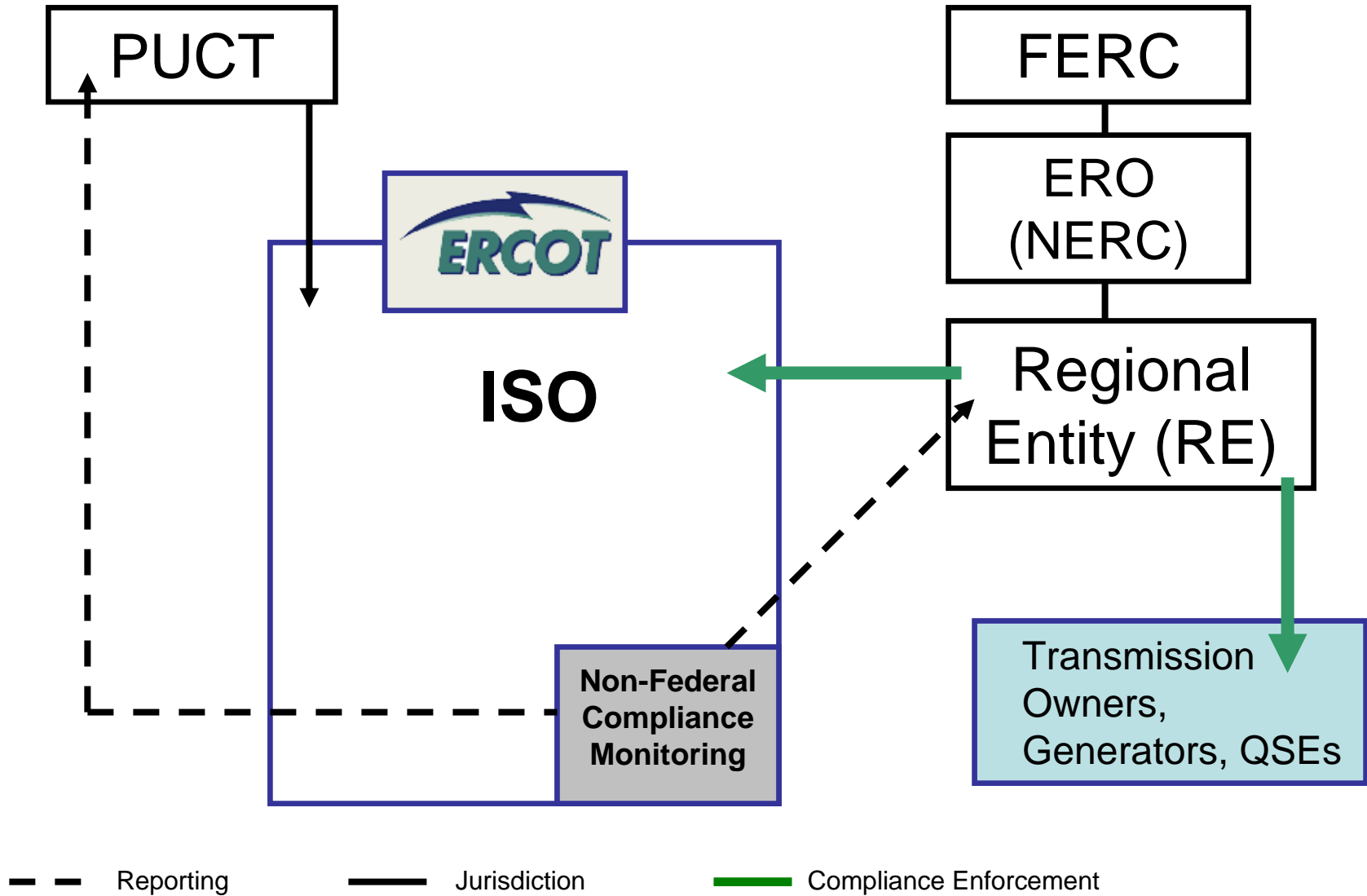
- **ERCOT's internal compliance group today monitors & audits ERCOT system operations and some market participant activities**
 - Compliance group reports directly to CEO and is independent from Operations
- **ERCOT Region has one of the best track records within NERC for compliance with standards**

Grid Reliability (pre-EPAAct)



- **Energy Policy Act of 2005 (EPAct)**
 - Gives FERC jurisdiction over bulk electric system reliability with enforcement power
 - Creates an Electric Reliability Organization (ERO) certified by FERC to develop & enforce reliability standards
 - Allows ERO to delegate enforcement authority to Regional Entities (RE's)
- **NERC today is a voluntary, industry-based organization**
 - Reliability standards developed by peers
 - Industry compliance monitored by Regional Reliability Councils
- **NERC is reorganizing to comply with EPAct & is the sole applicant to FERC to fill the role of ERO**

Grid Reliability (post EPCAct)



- **Develop & maintain national set of reliability standards (based on NERC)**
- **May delegate responsibility for regional compliance & enforcement to RE's**
 - Reviews & approves RE budgets & business plans
- **Funded by fees collected through ERCOT ISO based on electricity consumption**
- **Open membership**
 - Transmission owners
 - ISOs and RTOs
 - Generators
 - Power marketers
 - Open to all

- **Under direct supervision of ERO, the RE:**

- Will monitor compliance at the regional level
- Will focus on NERC standards, not ERCOT Protocols
 - ERCOT will retain an internal compliance group to monitor compliance with ERCOT Protocols and Operating Guides, and report to PUC
- May impose fines based on ERO guidelines
- Can work with stakeholders to develop regional variances to ERO standards
 - Some variances will be desirable and necessary in the ERCOT Region, due to our market structure
 - Only an RE can develop region-specific variances & standards
- Will be funded through the ERO surcharge on electricity sales

ERCOT's goals for the ERO/RE issue:

1. Preserve maximum independence from FERC for other functions in the ERCOT region
2. Retain critical regional distinctions
 - Securing variances from some NERC standards that are critical to ERCOT market
 - Ensuring NERC/FERC compliance and enforcement are performed by entity familiar with Texas operating practices and markets
3. Keep control over enforcement program costs

OPTIONS under consideration:

1. ERCOT applies to become RE (functional separation)
 - Not prohibited, but FERC rule sets ‘high burden of proof’ of independence of enforcement activity from other ISO functions
2. ERCOT facilitates creation of separate organization to apply to become RE (structural separation)
 - Fully compliant with FERC rule
3. No application (allow NERC or 3rd party to fill void)
 - Risk of loss of control

- July '05 Energy Policy Act passes Congress
- Sept. '05 FERC proposed rule on ERO published
 - PUC and ERCOT file comments
- Feb. 3 FERC Rule final
- April 4 ERO application (from NERC) filed at FERC
- April 6 ERCOT hosts public meeting on ERO/RE issue
- April 18 ERCOT Board considers options on RE structure

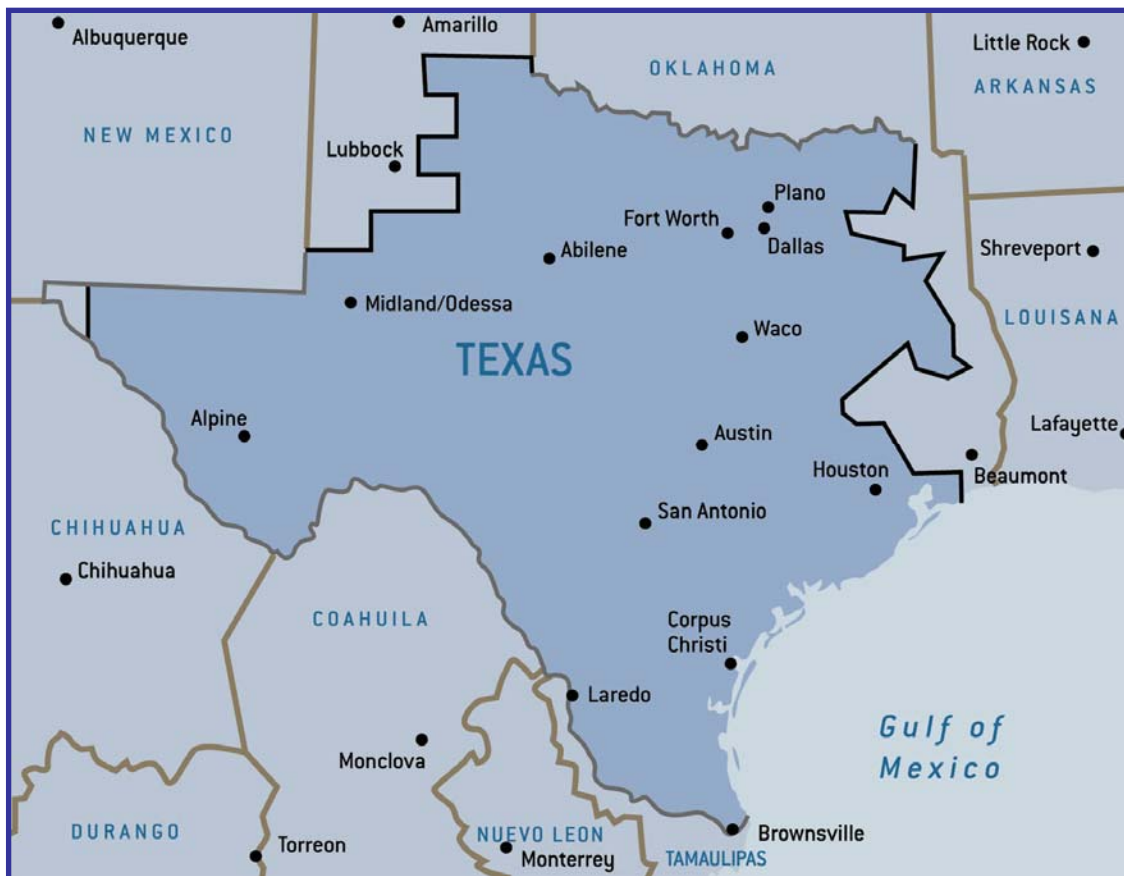
- May 10 RE draft budget due at NERC
- June 1 RE to file Board-approved budget, organizational structure & business plan
- July/Aug. NERC certification as ERO expected
- Aug. 2 NERC Board to approve ERO and RE budgets
- Aug.-Oct. RE negotiates & finalizes Delegation Agreement with ERO
- Nov. 1 Expected date for FERC order approving ERO budget & business plan
- Nov. 1 RE legal entity created (final)
- Jan. 1 '07 ERO and RE operations begin

Questions?

ERCOT Mission

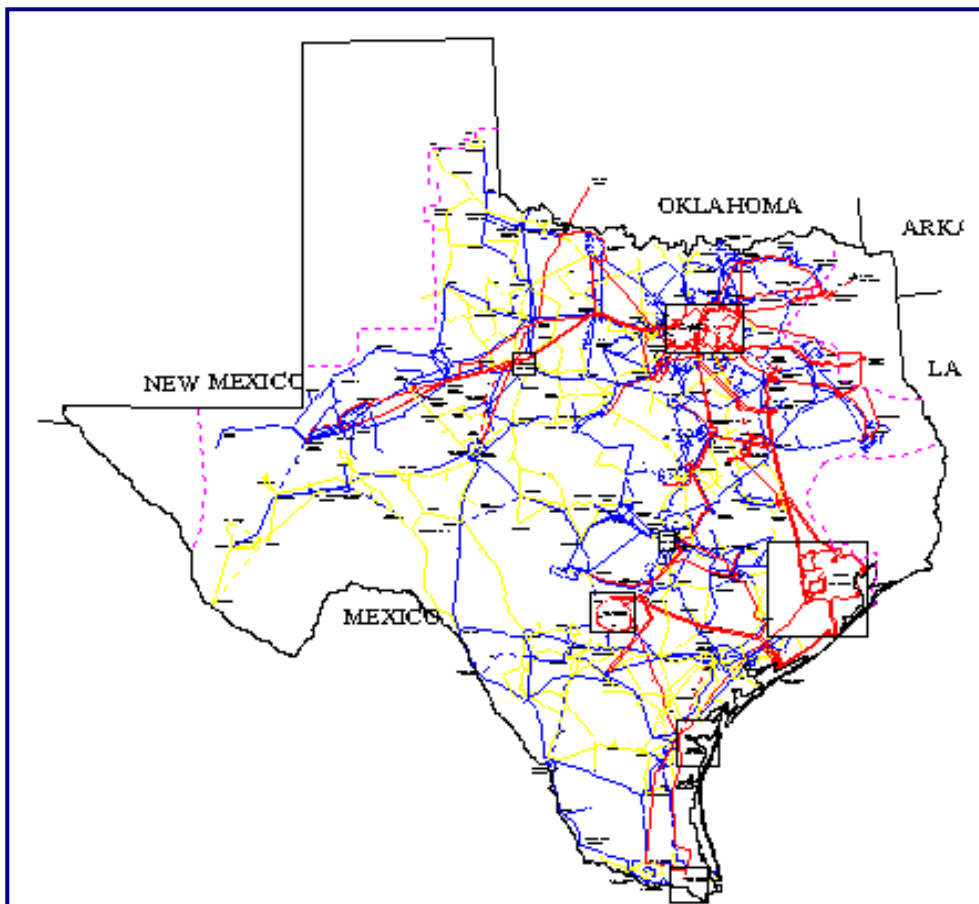
*ERCOT's
Mission is to
direct and
ensure reliable
and
cost-effective
operation of
the electric
grid and to
enable fair and
efficient
market-driven
solutions to
meet
customers'
electric service
needs.*

Electric Reliability Council Of Texas



- **Independent, not-for-profit organization since 1941**
- **Intra-state electric interconnection**
 - 1 of 3 North American interconnections
 - Connected only by DC ties
- **Independent System Operator**
 - Grid operations
 - Administrator of the wholesale & retail markets
 - Neutral registration agent for retail customers
 - Supervisor of the transmission planning process
- **Public Utility Commission of Texas jurisdictional**

Appendix B: ERCOT Region Facts & Figures



- **200,000 square miles**
 - 75% of Texas (not including Panhandle, El Paso area, 2 areas of East Texas)
 - 85% of Texas load
 - 20 million end-use customers
- **38,000 miles of Transmission Lines**
 - Nearly 700 miles of 345 KV lines added since 1999
- **77,000 MW of total resources**
 - 583 generation facilities
 - 26,000 MW new generation capacity added since 1998
- **60,272 MW peak load (2005)**
- **16.9% reserve margin for 2005**
- **3 DC Ties**
- **Single point of control**