

**ERCOT PROCESS FOR DETERMINING  
CONTRACT PERIOD COST LIMITS AND REASONABLENESS OF BIDS  
FOR EMERGENCY INTERRUPTIBLE LOAD SERVICE (EILS)**

*Revised February 13, 2009*

**I. GENERAL COMMENTS**

ERCOT is committed to serving as a responsible steward of the money allocated to EILS. ERCOT will procure EILS with the goal of minimizing its cost. ERCOT views the \$50 million EILS cost cap established by Public Utility Commission of Texas (PUCT) Subst. Rule §25.507 as a cap and not a mandate to spend that amount.

ERCOT will retain flexibility in awarding bids as provided for in Subst. R. §25.507. The Preamble to the amended Rule<sup>1</sup> states:

*The rule contemplates that ERCOT will determine the reasonable maximum price for this service and that it will not announce the maximum price at which it will procure the resource. The commission also agrees with EnerNOC that bids are likely to be treated as confidential, and market participants should not have knowledge of bids from other providers. The commission expects that ERCOT will acquire resources offered at reasonable prices, recognizing the value of the service, the cost and value of other reliability services, and the limits in the rule. In this context, the commission concludes that ERCOT is not under any obligation to procure EILS at a cost that it concludes is unreasonable, and that there are thus no market power concerns with respect to the service.*

ERCOT will select bids “based upon least cost bid per MW of capacity bid based upon the payment as bid for selected EILS Resources,” consistent with the Protocols.<sup>2</sup> Specific awards will depend on the bids in an EILS Contract Period. ERCOT will reject bids it deems unreasonable or unacceptable, consistent with the authority granted by the Rule.<sup>3</sup>

**II. EILS CONTRACT PERIOD COST ALLOCATION**

ERCOT will procure EILS with the goal of ensuring that funds are available to procure the service year-round. ERCOT will strive to allocate the funds relatively evenly

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<sup>1</sup> Final Order, Project 34706, pgs. 11-12.

<sup>2</sup> Section 6.5.12 (12).

<sup>3</sup> Subst. R. §25.507(a)(3)

across the three yearly EILS Contract Periods; however, that allocation goal does not necessarily mean ERCOT will allocate exactly one-third of the annual cost cap to each EILS Contract Period.

### **III. REASONABLENESS OF BIDS**

The PUCT Rule grants ERCOT authority to select and award EILS Bids<sup>4</sup> and defines “ERCOT” as “[t]he professional staff of the Electric Reliability Council of Texas.”<sup>5</sup> Responsibility for final bid selection and any relevant determinations of bid “reasonableness” resides with ERCOT ISO’s Executive Management.

ERCOT’s process for evaluating bids will draw upon expertise from various ERCOT departments and groups. Initially, a committee will convene to review bids. The committee may consult with other members of ERCOT’s staff. The committee will analyze bid curves for each EILS Time Period as defined in the RFP specific to the EILS Contract Period. The committee will formulate a recommendation for awarding bids, starting with the lowest qualified bid until meeting either the 1000 MW limit or the EILS Contract Period cost allocation, while rejecting bids deemed unreasonable.

ERCOT will consider the following hierarchy of factors in determining the reasonableness of a bid:

1. A comparison of the price of the next bid to the cost of Ancillary Services such as Responsive Reserve Service, Up-Regulation Service and Non-spin Reserve Service for comparable time periods, taking into account the relative value of EILS and each Ancillary Service to the reliability of the ERCOT System. ERCOT will pay close attention to clearing-price trends in the Ancillary Services markets to ensure that EILS costs remain relatively consistent in comparison to the costs of higher quality services such as Responsive Reserves or Up-Regulation. ERCOT will assess such trends by evaluating clearing prices over periods including, but not limited to, the following: preceding 12 months; months from the prior year corresponding to the upcoming Contract Period; and last 30 days.

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<sup>4</sup> Subst. R. §25.507(a) and (d)(1).

<sup>5</sup> Subst. R. §25.507(b)(6)

2. Price of the next bid compared to the last bid selected.
3. PUCT Commissioners' expressed desire to see EILS stimulate the development of additional demand response in the ERCOT region.
4. Potential effect of procurement decisions on future bidding behavior.
5. The projected likelihood of the need for deployment of EILS for the specific EILS Time Period and EILS Contract Period based on operational experience and expectations.
6. Maturity of the EILS program.

Procurement decisions for a specific Time Period and/or Contract Period will not set a binding precedent for future procurement decisions. The factors considered during a procurement process are subject to change and ERCOT may assign different weights to the different factors depending on the specific Contract Period.

Any recommendation for procurement expenditures in excess of an EILS Contract Period cost allocation will be based on an evaluation of the value of EILS for the Contract Period, the reasonableness of bids and the potential for Requests for Proposal for future EILS Contract Periods to attract more EILS capacity at lower cost.

The review committee will develop options and attempt to reach consensus on a recommendation for reasonableness of bids and total procurement. ERCOT's Vice President of System Operations will review the options and take a final recommendation to the ERCOT Chief Executive Officer or Chief Operating Officer.

ERCOT reserves the right to reject all bids and, thus, not procure EILS for the Contract Period if it deems that all bids fail to meet the standard of reasonableness.

Consistent with the PUCT Rule,<sup>6</sup> within ten days of announcing the EILS awards for the EILS Contract Period, ERCOT will post the following information at the EILS public web page:<sup>7</sup> (i) number of MW procured, (ii) number of EILS Resources providing the service and (iii) projected total cost of the service for the EILS Contract Period.<sup>8</sup>

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<sup>6</sup> Subst. R. §25.507 (f)

<sup>7</sup> <http://www.ercot.com/services/programs/load/eils/index.html>

<sup>8</sup> ERCOT will not know the final cost until the end of the EILS Contract Period because the final amount is subject to adjustment after the EILS Contract Period based on EILS Resources' availability factors and performance factors.