



MEMO

Date: November 9, 2004
To: Board of Directors
From: Read Comstock, TAC Chair
Subject: Protocol Revision Requests

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 16, 2004

Agenda Item No.: 8a

Issue:

Consideration of Protocol Revision Requests (PRRs).

Key Factors Influencing Issue:

The Protocol Revisions Subcommittee (PRS) met, discussed the issues, and submitted Recommendation Reports to the Technical Advisory Committee (TAC) regarding the PRRs described herein. TAC considered the issues and voted to take action on the PRRs as described below.

The following PRR was approved by TAC and is recommended to the Board for approval:

PRR527 - Revision to Ancillary Service Performance Conditions (formerly "OOME Definition") – URGENT. Proposed effective date: December 1, 2004. No budgetary impact; no impact to ERCOT staffing; no significant impacts to ERCOT computer systems; no impact to ERCOT business functions; no impact to grid operations. This PRR modifies the Protocols to require ERCOT to issue a verbal Dispatch Instruction to the QSE to relieve the QSE from having to provide the Ancillary Service for the interval or retract the Resource-specific Dispatch Instruction if a unit-specific OOME or Balancing Energy Dispatch Instruction issued by ERCOT causes a QSE to be unable to provide Ancillary Services that it is obligated to provide. PRS approved urgent status for PRR527 through an email vote. At its July meeting, PRS voted to remand PRR527 to WMS for clarification. WMS discussed PRR527 at its August and September meetings. On 9/24/04, PRS agreed to table PRR527 until October to allow for additional review. At its October meeting, with all market segments present, PRS unanimously recommended approval of the PRR without abstentions. At its November meeting, TAC voted to recommend approval as submitted by PRS with 23 votes in favor and 5 votes opposing (from the consumer and independent REP segments), there were no abstentions. ERCOT Credit staff and the CWG have reviewed PRR527 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.



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PRR532 – Recommended on Remand

On October 19, the Board remanded PRR532 to TAC to address legal issues. TAC discussed the issues remanded by the Board and recommends approval as revised:

PRR532—Implementation of Non-Transmission Alternatives to RMR. *Proposed effective date: December 1, 2004. Impact to staffing resources is dependant on the number and type of MRA agreements negotiated; impacts to ERCOT systems will be evaluated on a per-contract basis; some impact to Legal, System Planning and Resources Planning functions; impacts to grid operations will be evaluated on a per-contract basis.* This PRR revises the Protocols to allow ERCOT to implement non-transmission alternatives to Reliability Must-Run (“RMR”) Services to reduce uneconomic uplift.

The PRR allows ERCOT to contract with a Resource Entity to provide reliability service in place of the RMR unit *provided* the offered Must Run Alternative (MRA) provides an acceptable solution to the reliability requirement and does so for more cost effectively. PRS rejected a request for urgent status for PRR532 through an email vote. PRS voted to recommend approval of PRR532 with two opposing votes and four abstentions. The ERCOT CWG has reviewed PRR 532 and determined that implementation of this PRR does not impact the current methods that are used to calculate ERCOT Creditworthiness Requirements or the kind of activity that should be monitored. However, implementation of PRR 532 does have broader credit implications. See CWG Comments dated 9/28/04 for further detail. With all segments present, TAC unanimously approved urgent status for PRR532 to modify the PRR. With one member from the IOU segment opposing and all segments present, TAC voted to recommend approval of PRR532 as revised by CWG comments and TAC.

At its October 19, 2004, meeting the Board considered approving the PRR, but ERCOT Staff raised a legal issue and other parties raised concerns about the lack of definition of the amount of benefit that must be shown to merit an MRA. The Board remanded the PRR to TAC to consider the legal issue and those concerns. On 11/4/04, TAC voted to recommend approval of PRR532 as revised by comments from ERCOT Staff and TAC, which provided that the Board delegate authority to approve MRA contract to a subcommittee of the Board and that MRA service must provide at least a projected \$1 million annualized savings over the RMR alternative. All segments were present for the vote, there were no opposing votes and one member from the independent power marketer segment abstained.



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TAC Rejection of PRR 546

After discussion at the November 4, 2004, meeting, TAC rejected PRR 546.

PRR546 - PCR Treatment for Federal Hydropower Resources. *No budgetary impact; no impact to ERCOT staffing; no impacts to ERCOT computer systems, minor changes to TCR calculation spreadsheet; no impact to ERCOT business functions; no impact to grid operations.* This PRR revises Section 7.5.6 to provide that long-term power purchase agreements for federal hydropower are eligible for PCR treatment if a long-term allocation was in place prior to September 1, 1999. PRS approved urgent status for PRR546 through an email vote. At its October meeting, PRS recommended approval of the PRR with seven abstentions from the independent power marketers, investor owned utilities and consumer segments. No participant present at the meeting voted against approval of the PRR. All segments were present for the vote.

At its November meeting, TAC voted to reject PRR546 with 13 abstentions (independent REP, independent power marketer, and IOU segments), 2 opposing votes (IOU and consumer segments), and 13 affirmative votes (consumers, cooperatives, IOU and municipal segments). PUC Staff submitted comments to both PRS and TAC recommending rejection of PRR 546. ERCOT Credit staff and the CWG have reviewed PRR546 and do not believe that it requires changes to credit monitoring activity or the calculation of liability.

Tex-La has submitted an appeal of TAC's decision to the Board for consideration under Item 8b.

The TAC Recommendation Reports and Impact Analyses based on the PRS Recommendation Reports are included in the Board meeting distribution. In addition, these PRRs and their supporting materials are presented on the ERCOT website, including comments submitted to ERCOT and recommendation reports from the PRS:

<http://www.ercot.com/AboutERCOT/PublicDisclosure/ProtocolRev.htm>

Alternatives:

(1) Approve the TAC recommendations on PRRs 527 and 532 as described above or as modified by the Board; (2) reject the TAC recommendations; or (3) remand any PRRs to TAC with instructions.

Conclusion/Recommendation:

As more specifically described above, TAC and ERCOT Staff recommend the Board



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approve PRR527 and PRR532 described herein.