



MEMO

Date: November 9, 2004
To: Board of Directors
From: Trip Doggett, TNT Independent Facilitator
Subject: Revision of Texas Nodal Design Elements

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 16, 2004

Agenda Item No.: 9a

Issue:

The Texas Nodal Team (TNT) process approved by the Board at its August 2003 meeting requires Board approval the market design elements for the Texas Nodal market design. The Texas Nodal design elements were approved at the Board's March and April 2004 meetings. After consideration of comments provided by four economists that participated in several TNT meetings, TNT voted at its November 8 meeting to adopt several recommendations, resulting in several changes to our market design. TNT requests Board approval of these changes.

Background:

The TNT has made great progress in meeting the PUCT mandate for ERCOT to develop a revised wholesale market design, in accordance with PUCT Subst. R. 25.501, *Wholesale Market Design in the Electric Reliability Council of Texas*. ERCOT must file proposed Protocols for the implementation of Texas Nodal in March of 2005. Therefore, final Board approval of the proposed Texas Nodal Protocols will be needed at the March 2005 Board meeting. Full implementation of the new market design is scheduled for October 2006.

In order to meet the Rule's schedule requirements for Protocols development, ERCOT requires Board approval of changes to the design elements for Texas Nodal, recommended by TNT as a result of input from the economists, at the Board's November 16 meeting.

At the November 16, 2004, Board meeting, I will present to the Board the following changes to our previously approved design elements for approval:

- Addition of co-optimization of AS and energy, as shown in the attached red-lined version the Board approved Day-Ahead Ancillary Services Market white paper (Attachment A)
- Lowering of the RUC allocation multiplier that limits the amount that QSEs may be charged when short, as shown in the attached red-lined version of the Board approved Day-Ahead Reliability Unit Commitment (DARUC) white paper (Attachment B)



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- Creation of a demand curve for a small quantity of Responsive Reserve Service as described in Attachment C.

Action Requested:

As the TNT Independent Facilitator, I present to the Board the following changes to our previously approved design elements. White papers describing the changes are attached as indicated.

- (1) Addition of co-optimization of AS and energy, as shown in Attachment A.
- (2) Lowering of the RUC allocation multiplier that limits the amount that QSEs may be charged when short, as shown in Attachment B.
- (3) Creation of a demand curve for a small quantity of Responsive Reserve Service as described in Attachment C.

Alternatives:

(1) Approve the TNT design element changes as presented or as modified by the Board; (2) remand to ERCOT and TNT with instructions.

Conclusion/Recommendation:

The Texas Nodal Team, TNT Independent Facilitator, and ERCOT Staff recommend the Board approve the recommended changes to the Texas Nodal wholesale market design elements that resulted from input from the economists.