



MEMO

Date: December 7, 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: December 14, 2004

Agenda Item No.: 10b

Issue:

The Texas Nodal Team (TNT) process approved by the Board in August 2003 requires Board approval of the Texas Nodal market design elements. The Board originally approved the Texas Nodal design elements at its April and May 2004 meetings. After consideration of the economist's comments, TNT voted on November 8 to adopt several of the economist's recommendations, resulting in revisions to the market designs which were approved by the Board on November 16, 2004. After further consideration, TNT voted on November 15 to adopt additional changes. TNT requests Board approval of these changes.

Background:

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 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 the November 15 changes to the design elements for Texas Nodal, recommended by the economists, at the Board's December 14 meeting.

At the December 14, 2004, Board meeting, I will present to the Board the following changes to the previously approved design elements for Board approval:

- Changes to the Day-Ahead Energy Market (DAEM), as defined in red-lined comments in the Board approved Day-Ahead Energy Market white paper (Attachment A). These changes include:
 - (1) the decision to start the market with the new DAEM, not Auction Day Ahead Market (ADAM),
 - (2) adding the same Resource mitigation methodology in day-ahead as real time,
 - (3) restricting the ability to carry Options to real time to NOIEs, only up to 110%



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- of their next day's load,
- (4) adding the requirement that self-committed capacity nominations, inter-QSE energy trades, and three-part offers considered in DAEM/RUC must be submitted prior to the commencement of the DAEM, and
 - (5) removal of the day-ahead Congestion Revenue Rights (CRR) reconfiguration.
- Changes to CRRs, as defined in red-lined comments in the Board approved CMCG Concept white paper (Attachment B). These changes include:
 - (1) CRRs will be fully-funded,
 - (2) CRR auction revenue will be allocated to load for source and sink in same zone, otherwise ERCOT-wide load ratio share,
 - (3) simplified Point-to-Point Option settlement, and
 - (4) clarification that no CRRs will be sold on radial transmission elements that originate or terminate at a Resource.
 - Addition of offer floors as defined in the red-lined comments in the Board approved Market Mitigation white paper (Attachment C).

Action Requested:

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

- (1) Several changes to the Day-Ahead Energy Market (DAEM), as defined in red-lined comments in the Board approved Day-Ahead Energy Market white paper (Attachment A).
- (2) Changes to Congestion Revenue Rights, as defined in red-lined comments in the Board approved CMCG Concept white paper (Attachment B).
- (3) Addition of offer floors as defined in the red-lined comments of the Board approved Market Mitigation white paper (Attachment C).

Alternatives:

- (1) Approve the TNT design element changes as presented or as modified by the Board or,
- (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 economist recommended changes to the Texas Nodal wholesale market design elements presented herein.