



MEMO

Date: January 11, 2005
To: ERCOT Board of Directors
From: Bob Kahn, Chair, H.R. & Governance Committee
Subject: Resolution to Amend Board Action on PRR 532 – Must Run Alternatives

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: January 18, 2005

Agenda Item No.: 10a

Issue:

PRR 532, approved November 16, 2004, by the ERCOT Board requires the appointment of a sub-committee to consider approval of any Must Run Alternative (“MRA”) Agreements. After further consideration of this issue, the Human Resources and Governance Committee came to the conclusion that direct Board involvement in approving MRA Agreements is not necessary or desirable. Therefore, the Chair of the Committee offers the following resolution for Board consideration:

WHEREAS, upon further reflection, the HR and Governance Committee of the Board has determined that it is not necessary or desirable for a sub-committee of the Board to be directly involved in approval of MRA Agreements;

*WHEREAS, ERCOT Staff is capable of making sound decisions regarding approval of individual MRA Agreements, particularly given (1) the clear criteria and limitations of the Protocols regarding the evaluation and approval of MRA proposals **and** (2) that the financial obligation to ERCOT (on behalf of the market) should be reduced with an MRA as opposed to the RMR obligation being replaced; and*

WHEREAS, parties affected by the decision of ERCOT Staff in approving MRA Agreements may appeal such actions to the Board and the Public Utility Commission;

*THEREFORE, BE IT RESOLVED that the Board’s action on November 16, 2004, on PRR 532 is hereby amended to eliminate the requirement that a Board subcommittee approve MRA Agreements, and the PRR is approved with such modification as set forth in **Attachment A**. The effective date of this amendment shall be upon Board approval of this Resolution.*



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Background/History:

PRR 532 provides a process to obtain non-transmission alternatives to Reliability Must-Run (“RMR”) Services in order to reduce uneconomic uplift. It allows ERCOT to contract with a Resource Entity to provide reliability service in place of an RMR unit provided the offered Must Run Alternative (MRA) provides an acceptable solution to the reliability requirement and provides the service more cost effectively than the RMR unit (at least \$1 million annualized cost savings). MRAs are limited in duration to the time it takes to implement a permanent transmission alternative to the MRA service. The PRR requires that a sub-committee of the Board approve the Agreement needed to provide MRA service.

ERCOT Staff had previously raised a legal issue about Board involvement in approving MRA Agreements. PRR 532, as approved by the Board at its November 2004 meeting, included the requirement that a Board sub-committee approve MRA Agreements. *See* Protocols Section 6.5.9.2(4) as amended by PRR 532, reflected in **Attachment A**.

Key Factors Influencing Issue:

Circumstances where MRAs would be feasible likely will be rare. In addition, to obtain approval, MRAs must be (1) a technically reliable alternative to the RMR alternative, (2) limited in duration to the time, and (3) must be significantly more cost effective than the RMR unit. Thus, the obligation of ERCOT (on behalf of the market) under an MRA Agreement should be *less* than under the existing RMR unit costs. In addition, an affected party may challenge ERCOT Staff’s decision to the Board or to the Public Utility Commission.

Under PRR 532 as currently approved, in order to consider final approval of an MRA Agreement, the Board would need to appoint a sub-committee to review and approve MRA Agreements as provided by PRR 532. The HR and Governance Committee has determined that this process is unnecessary and undesirable.

ERCOT has issued a request for proposals (RFP) for alternative to the Bates RMR units in South Texas. In order to timely evaluate and potentially approve a proposed MRA for this service, prompt Board action is needed to amend its prior action on PRR 532 or to appoint a sub-committee.

Alternatives:

- Amend the terms of the Board’s approval of PRR 532 to eliminate the need for Board sub-committee approval of MRA Agreements by approving the resolution set forth above.
- Appoint a Board subcommittee to consider approval of MRA Agreements.



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- Defer action to appoint a subcommittee.

Conclusion/Recommendation:

The HR and Governance Committee and ERCOT Staff recommends that the Board approve the Resolution set forth above.