



MEMO

Date: January 11, 2005
To: Board of Directors
From: Read Comstock, TAC Chair
Subject: Appeal of TAC's Rejection of PRR 556

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: January 18, 2005

Agenda Item No.: 8b

Issue:

Reliant Energy appeals TAC's rejection of PRR 546 and seeks Board approval of the PRR. The PRR was submitted by Reliant (See **Attachment A**).

Background/History:

PRR556 – Elimination of ERCOT-wide Uplift of Costs Related to OOMC, OOME, LBES and RMR Payments. Proposed effective date: Upon system implementation. Substantial budgetary impact (\$100,000); no impact to ERCOT staffing; impacts to ERCOT computer systems; short-term impact to ERCOT business functions; no impact to grid operations. This PRR would change the allocation of OOMC, OOME, LBES, and RMR costs from ERCOT-wide Load Ration Share (LRS) to a method that would allocate these costs on a Congestion Zone LRS basis. In other words, Qualified Scheduling Entities (QSEs) representing Load in each Congestion Zone would bear its LRS of these costs (mostly related to Local Congestion) that are generated in the Zones where their Loads are located as opposed to the current ERCOT-wide uplift of these costs. ERCOT credit staff and the CWG have reviewed PRR 556 and concluded that no changes are expected in how ERCOT calculated estimated aggregate liability or what ERCOT monitor for credit risk as of result of this PRR. However, implementation of this PRR will likely shift credit risk among QSEs in the ERCOT Region which may ultimately impact the amount of collateral required to be posted by each entity.

PRR 556 was posted on 11/12/04. A motion for urgency status failed by a PRS e-mail vote on 11/16/04. The CWG, TXU and ERCOT submitted comments (this is mark's language). At its 12/15/04 meeting, PRS rejected a motion to recommend approval of PRR 556 in a 31% to 69% vote. Members of the Coop, MOU, IOU, Consumer, Independent REP, and Independent Power Marketer segments voted against this PRR. There were abstentions from the IOU, Independent Generator, and Independent Power Marketer segments.



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Reliant appealed the PRS decision to TAC. TAC rejected Reliant's appeal and the PRR. A motion to recommend approval of PRR 556 failed with 21 nays, seven yeas, and one abstention. All market segments were present.

The TAC Action Report (**Attachment B**) and an Impact Analysis (**Attachment C**) based on the PRR are included in the Board meeting distribution. In addition, this PRR and its supporting materials are presented on the ERCOT website, including comments submitted to ERCOT and Action Reports from the PRS and TAC:

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

Key Factors Influencing Issue:

- Approval of the PRR will cause significant changes in allocation of local congestion costs.
- ERCOT Staff takes no position on the proposal.

Alternatives:

(1) Approve PRR556 as proposed by the appellant, or as modified by the Board; (2) reject the PRR; or (3) remand the PRR to TAC with instructions.

Conclusion/Recommendation:

TAC recommended rejection of this PRR. ERCOT Staff takes no position regarding this PRR.