



MEMO

Date: March 8, 2005
To: Board of Directors
From: Read Comstock, TAC Chair
Subject: Simultaneous Selection of Ancillary Services Bid Restrictions

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: March 15, 2005

Agenda Item No.: 10c

Issue:

Consideration of the criteria for rejection of Ancillary Service bids during simultaneous procurement of Ancillary Services.

Background/History:

The Final Order issued by the PUCT in Docket No. 23220, dated April 11, 2001, required ERCOT to amend the Protocols so that procurement of Ancillary Services would use simultaneous optimization for assignment of Ancillary Service awards to Resources in order to more efficiently allocate awards. Prices for the awarded Ancillary Services would be set based on corresponding Shadow Prices.

The Board approved PRR342, *Simultaneous Selection of Regulation Up, Responsive Reserve and Non-Spinning Reserve*, in order to comply with the PUCT Order in Docket No. 23220. The Board approved the PRR on January 22, 2003 and language was boxed in the Protocols for later implementation. One requirement of the approved Protocol language is to reject bids for multiple Ancillary Service types that violate certain bid price criteria. The criteria specifies that the Non-Spinning Reserve bid will have a value generally lower than the Responsive Reserve bid, which in turn will have a value generally lower than the Regulation Up bid. Therefore, prices should reflect the relative quality of the service. The criteria allows for *some* overlap of the bid prices for each service. The permitted bid overlap is a value expressed as a percentage, and is currently reflected in the Protocol language as an "X". The value of the X must be approved by the Board of Directors prior to implementation of the system project for simultaneous procurement of the Ancillary Services.

WMS discussed at length the merits of setting the value at various levels. A value of "0%" would allow no overlap of the bid prices. If the value is 0%, the ERCOT system would reject all Non-Spinning Reserve bids higher than the Responsive Reserve bid, and reject Responsive Reserve bids higher than the Regulation Up bid. Conversely, setting X at



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100,000%, all bid overlaps would be allowed. At a value this high, no bids would be rejected, as the bid limit price will be much higher than any bid.

The WMS recommendation at its February 24, 2005 meeting was to implement simultaneous bid selection without restrictions (i.e. set “X%” as 100,000%), so that Market Participants may observe bidding behavior under the simultaneous bid selection process for a period of time before recommending a more restrictive limitation. TAC approved the WMS recommendation at its March 3, 2005, meeting – with one abstention from the Municipal Segment.

Alternatives:

(1) Approve the TAC recommended 100,000% value for the “X%” shown in the Protocols;
(2) approve a different value for “X%”; (3) remand to TAC with instructions.

Conclusion/Recommendation:

TAC recommends the Board approve a value of 100,000% for “X%” in Section 4.4.11.