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Date: March 8, 2005
To: Board of Directors
From: Trip Doggett, TNT Independent Facilitator
Subject: Approval to File Texas Nodal Team Draft Protocols

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: March 15, 2005

Agenda Item No.: 11a

Issue:

Approval of the filing of draft ERCOT Texas Nodal Protocols with the PUCT with the following resolution:

WHEREAS, the Public Utility Commission of Texas has directed Electric Reliability Council of Texas, Inc. (ERCOT) to use a stakeholder process to develop a wholesale market design that complies with the market elements set forth by Commission rule (PUCT Subst. R. 25.501) and to prepare an independent cost benefit analysis of such design and alternatives (provided to the Commission in December of 2004);

WHEREAS, ERCOT has sponsored a stakeholder process (Texas Nodal Team - TNT) in compliance with the Commission's rule, providing independent facilitation to participating stakeholders;

WHEREAS, the TNT has developed a market design and draft Protocols in compliance with the Commission's rule;

WHEREAS, ERCOT must file with the Commission draft Protocols supporting the TNT-developed market design by March 18, 2005;

NOW THEREFORE BE IT RESOLVED, that the Board of Directors directs ERCOT Staff to file the draft Protocols developed by the TNT process in compliance with the Commission's rule.

By this action, the Board makes no endorsement of the final TNT market design or draft Protocols, or other alternatives for market design that the Commission may consider.

Background:

The TNT has completed its process of developing draft Protocols to implement the PUCT wholesale market design set forth in accordance with PUCT Subst. R. 25.501, *Wholesale Market Design in the Electric Reliability Council of Texas*. Under that rule, ERCOT must



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file proposed Protocols for the implementation of Texas Nodal by March 18, 2005 and draft energy load zones aggregating resource node energy prices.¹ Final Board approval of the draft Protocols will be needed at the March 2005 Board meeting. Full implementation of the new market design is scheduled for October 2006 under the PUCT Rule.

At its March 2, 2005, meeting the TNT approved the following Resolution regarding the sections of the draft Texas Nodal Protocols to be filed:

Resolved that only the sections of the ERCOT TNT Protocols that are necessary to evaluate the proposed wholesale market design changes be filed at the Public Utility Commission of Texas on March 18, 2005. Those sections are listed as follows:

Section No.	Title
	Table of Contents
1	Overview
2	Definitions and Acronyms
3	Management Activities for the ERCOT System
4	Day-Ahead Operations
5	Transmission Security Analysis and Reliability Unit Commitment
6	Adjustment Period and Real-Time Operations
7	Congestion Revenue Rights
8	Performance Monitoring and Compliance
9	Settlement and Billing
12	Market Information System
16	Registration and Qualification of Market Participants
17	Market Monitoring and Data Collection
22	Exhibit F: Standard Form Reliability Must-Run Agreement
22	Exhibit H: Standard Form Congestion Revenue Rights Account Holder Agreement

All other sections of the ERCOT TNT Protocols require only conforming changes that are not needed to evaluate the proposed wholesale market design changes. The TNT group proposes that any necessary conforming changes will be made in a compliance filing after the PUCT has had a chance to consider the proposed wholesale market design.

¹ Description of energy load zones is set forth in Section 3.4 of the draft Texas Nodal Protocols.



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The full text of the draft Texas Nodal Protocols can be found at <http://www.ercot.com/TNT/default.cfm?func=documents&intGroupId=93&b=>

At its March 7, 2005, meeting, the TNT completed its development of the draft Texas Nodal Protocols, concluding with the following resolution:

Resolved that the draft set of ERCOT TNT Protocols dated as of March 7, 2005 meets the requirements of the PUCT Substantive Rule 25.501(m). The TNT process provided independent facilitation to participating stakeholders and a voting structure that ensured representation of each stakeholder segment. Each part of the draft ERCOT TNT Protocols has been approved by a vote of at least 67% of the TNT stakeholder participants present, by market segment, but the entire set of draft ERCOT TNT Protocols does not necessarily represent the views of any particular TNT member. Each TNT member reserves the right to take any position regarding the ERCOT TNT Protocols at the PUCT or elsewhere. TNT recommends that ERCOT file the ERCOT TNT Protocols at the PUCT on or before March 18, 2005.

Outstanding Issues

While the TNT process has produced a draft market design, some issues could not be completely addressed in the required timeframe for this filing. At least five issues will require more work by the stakeholders, or the Commission if the Commission determines to make consideration of these issues a part of its review of the draft. These issues include:

- (1) full consideration of credit risk to the ERCOT market;
- (2) development of settlement calculation formulas that meet the market design principles in these draft Protocols;
- (3) possible inclusion of Real-Time co-optimization of ancillary service selection in the ERCOT procurement process;
- (4) role of the Independent Market Monitor; and
- (5) impact of Protocol Revisions approved since the April 2004 TNT baseline.

TNT is confident, however, that the draft Protocols have sufficient detail to enable a full review of the merits of the Texas Nodal market design.

Credit risk. Significant credit implications of the draft TNT market design have arisen in the final stages of the Protocol development, in particular related to credit exposure to owners of Congestion Resource Right obligations and settlement and invoicing of day-



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ahead energy market transactions. Provisions related to credit risk management in the draft protocols will be more fully developed in a joint effort of TNT and the ERCOT Credit Working Group. ERCOT will make a supplemental filing to address those impacts.

Settlement formulas. TNT was able to develop the written descriptions of the financial settlement calculations needed to implement the TNT market design. However, the detailed formulas describing the calculations mathematically have not been fully developed. Therefore, this filing will not include the settlement subsections in Sections 4, 5, 6, and 7 of the draft protocols. TNT will finalize the formulas and ERCOT will provide them to the Commission in a supplemental filing.

Real-Time Co-optimization of ancillary services. Co-optimization of ERCOT selection of ancillary services and energy in real-time will be reviewed at the same time as finalization of the settlement formulas. Any approved methodologies on real-time co-optimization will be addressed in the supplemental filing that will include the settlement formulas.

Independent Market Monitor. Depending on the outcome of state legislation adopted pursuant to Sunset Commission recommendations, Independent Market Monitor provisions of the draft protocols may need modification.

Protocol Revisions approved since the April 2004 TNT baseline. The Texas Nodal Protocols were drafted based on the ERCOT Protocols in effect in April 2004. Over sixty (60) Protocols Revision Requests (PRRs) have been approved since that time. The Protocol Revision Subcommittee (PRS) plans to undertake a review of those PRRs to determine if any of them have a material impact on the draft Texas Nodal Protocols that should be considered in the evaluation of the Texas Nodal market design. If PRRs are found to have such impact, ERCOT will make a filing to inform the PUCT.

Implementation. Now that the major portion of the draft Texas Nodal Protocols is developed, ERCOT will accelerate its evaluation of the implementation efforts needed if the Commission orders a wholesale market redesign. The implementation timeline must include time and resources for:

- (1) finally developed “locked down” Protocols for the market design;
- (2) detailed planning of the systems needed to support the new design, including incorporation of existing assets where possible;
- (3) building hardware and software coding to implement the design;
- (4) testing of ERCOT and Market Participant systems to implement the new design;
- (5) training of ERCOT Staff and Stakeholders in Texas Nodal system operations, market operations, data access and data interpretation;



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- (6) “mock market” integrated testing of ERCOT systems and Market Participant systems;
- (7) final transition to the new market design; and
- (8) maintenance of some former market systems pending final financial settlement under the previous market design.

Action Requested:

Board approval of the resolution (set forth above) to file the draft ERCOT Texas Nodal Protocols with the PUCT.

Alternatives:

(1) Approve resolution directing ERCOT’s filing of the draft ERCOT Texas Nodal Protocols 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 approval of the filing of the draft ERCOT Texas Nodal Protocols by approving the resolution above.