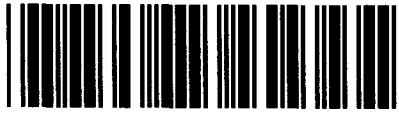




Control Number: 32350



Item Number: 1

Addendum StartPage: 0

PUC DOCKET NO. 32350

PETITION OF THE ELECTRIC §
RELIABILITY COUNCIL OF TEXAS § PUBLIC UTILITY COMMISSION
FOR APPROVAL OF THE ERCOT §
COMPLIANCE PROCESS § OF TEXAS

2008 APR 31 11:38
PUBLIC UTILITY COMMISSION

**PETITION OF THE ELECTRIC RELIABILITY COUNCIL OF TEXAS
FOR APPROVAL OF THE ERCOT COMPLIANCE PROCESS**

COMES NOW the Electric Reliability Council of Texas, Inc. ("ERCOT"), the Independent Organization of the ERCOT Region and, pursuant to P.U.C. SUBST R. 25.503(j), hereby files its Compliance Process for approval by the Public Utility Commission of Texas ("PUC" or "Commission"). ERCOT respectfully requests that the Commission assign a docket number to this matter, set a procedural schedule and approve ERCOT's Compliance Process as set forth in Exhibit A.

I. Statement of Jurisdiction and Authority

The Commission has jurisdiction over this matter pursuant to PURA §39.151.

II. Identification of Applicant

The name and address of the petitioner is the Electric Reliability Council of Texas, Inc., 7620 Metro Center Drive, Austin, Texas 78744.

The name, address, telephone and facsimile numbers of petitioner's authorized representatives are as follows:

Carolyn Shellman
Vice President and General Counsel
(512) 225-7070 (telephone)
(512) 225-7079 (facsimile)
cshellman@ercot.com

Shari Heino
Associate Corporate Counsel
(512) 225-7073 (telephone)
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sheino@ercot.com

ERCOT
7620 Metro Center Drive
Austin, Texas 78744

III. Background

P.U.C. SUBST. R. 25.503(j) requires ERCOT to develop and submit for Commission approval a process to monitor material occurrences of non-compliance with ERCOT procedures, including occurrences that have the potential to impede ERCOT operations or represent a risk to system reliability. ERCOT staff created the ERCOT Compliance Process in response to this requirement with significant input from various members of Commission staff.

IV. Proposed Procedural Schedule

Given that ERCOT's Compliance Process is a document containing only procedures, ERCOT believes that there is no need for discovery or an evidentiary hearing in this docket. Instead, ERCOT suggests that comments and briefing are the appropriate means for interested parties to participate in this proceeding. ERCOT, therefore, proposes the following procedural schedule:

Issuance of Notice:	
▪ Email Notice to QSEs, TDSPs and Resource Entities and Posting on ERCOT's Website	February 2, 2006
▪ Texas Register Notice	February 17, 2006
Initial Comments	March 3, 2006
Reply Comments	March 17, 2006

Commission staff counsel has indicated to ERCOT counsel that Commission staff finds the proposed notice and this schedule acceptable.

000002

V. Notice

ERCOT suggests that notice of this Petition be given as follows:

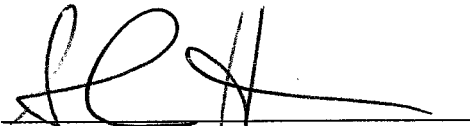
- Texas Register notice by the Commission identifying this Petition and setting forth the procedural schedule.
- E-mail notice by ERCOT to the e-mail exploder list for all Qualified Scheduling Entities (QSEs) and Resource Entities registered with ERCOT.
- Posting of this Petition by ERCOT on ERCOT's website.

VI. Prayer

ERCOT respectfully requests that the Commission issue an order approving ERCOT's Compliance Process attached hereto as Exhibit A.

Respectfully submitted,

Electric Reliability Council of Texas



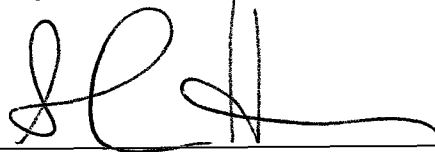
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CERTIFICATE OF SERVICE

I, Shari Heino, attorney for ERCOT, certify that a copy of this document was served on all parties of record in this proceeding on January 31, 2006 in the following manner: by facsimile or first class U.S. mail.

A handwritten signature in black ink, appearing to read 'S. Heino', written over a horizontal line.

Shari Heino

ERCOT Compliance Process

Introduction

The Electric Reliability Council of Texas, Inc. (ERCOT), acting in its roles as the certified Independent Organization in the ERCOT Region and a Reliability Region in the North American Electric Reliability Council (NERC), monitors and enforces compliance with standards needed to safely and reliably operate the electric transmission system and support wholesale and retail markets.¹ The ERCOT Protocols and Operating Guides and NERC Reliability Standards contain the standards and requirements for planning and operating reliable interconnected bulk electric systems in the ERCOT Region. To ensure that the reliability of the interconnected bulk electric system is maintained, all Market Participants involved in planning, operating, or using these systems must understand and comply with these requirements. The Public Utility Commission of Texas (PUCT) plays a key role in the enforcement process.

P.U.C. SUBST. R. 25.503(j) states:

ERCOT shall develop and submit for commission approval a process to monitor material occurrences of non-compliance with ERCOT procedures, which shall mean occurrences that have the potential to impede ERCOT operations, or represent a risk to system reliability. Non-compliance indicators monitored by ERCOT shall include, but shall not be limited to, material occurrences of schedule control error, failing resource plan performance measures as established by ERCOT, failure to follow dispatch instructions within the required time, failure to meet ancillary services obligations, failure to submit mandatory bids or offers that may apply, and other instances of non-compliance of a similar magnitude.

- (1) ERCOT shall keep a record of all such material occurrences of non-compliance with ERCOT procedures and shall develop a system for tracking recurrence of such material occurrences of non-compliance.
- (2) ERCOT shall promptly provide information to and respond to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of non-compliance with ERCOT procedures. However, this requirement does not relieve the market participant's operator from responding to the ERCOT operator's instruction in a timely manner and should not be interpreted as allowing the market participant's operator to argue with the ERCOT operator as to the need for compliance.
- (3) ERCOT shall keep a record of the resolution of such material occurrences of noncompliance and of remedial actions taken by the market participant in each instance.
- (4) ERCOT shall inform the commission staff immediately if the material occurrence of noncompliance is not resolved after the system operator has orally informed the market participant of the problem. The occurrence is not resolved if:
 - (A) the same instance of non-compliance is repeated more than once in a six-month period; or

¹ See Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §39.151(d) (Vernon 1998 & Supp. 2005).

- (B) the occurrence continues after ERCOT has first orally notified the operator of the market participant, and subsequently notified, orally or in writing, the supervisor of the operator of the market participant.

This Compliance Process document outlines ERCOT's and Market Participants' responsibilities pursuant to P.U.C. SUBST. R. 25.503(j). The process described in this document does not preclude ERCOT or the PUCT from taking action to redress the financial consequences of a Market Participant's failure to provide a service that it has undertaken to provide.

ERCOT Compliance Office

The ERCOT Compliance Office ("ERCOT Compliance") is the independent compliance monitoring authority within ERCOT for reliability-related requirements. The compliance monitoring function at ERCOT is independent from all other ERCOT operating and planning groups, including ERCOT's Operations, System Planning, and Information Technology Support Staff (collectively referred to as "ERCOT Operations"). While ERCOT Operations performs certain routine compliance monitoring,² ERCOT Compliance will perform the majority of compliance monitoring and will also monitor the activities of ERCOT Operations.

ERCOT Compliance was created in 1997 to monitor and enforce NERC Reliability Standards for the bulk electric grid within ERCOT and to assist in the development of the NERC Compliance Program. ERCOT Compliance reports directly to the ERCOT Chief Executive Officer and is not part of ERCOT's Operations or Planning functions. ERCOT Compliance has modeled its procedures for assessing compliance with the reliability requirements of the ERCOT Protocols and Operating Guides on the procedures it uses in its NERC Compliance Program.

Compliance Templates

ERCOT Compliance has developed Protocol-based Compliance Templates that provide detailed processes for monitoring non-compliance with existing ERCOT reliability-based Protocols and Operating Guides. Each template specifies:

1. The reliability criteria to which the Protocol/Operating Guide and its associated measurements apply.
2. The types of Market Participant to which the measurements apply.
3. The requirements to be measured.
4. The timeframe in which compliance is to be measured and/or achieved.
5. The details of what constitutes full compliance with a Protocol/Operating Guide and its measurements.
6. Levels for categorizing non-compliance (based upon severity and repetition).
7. The process followed by ERCOT Compliance in its compliance assessment and follow-up actions for the particular function being measured.

In addition to the ERCOT Compliance Templates, ERCOT Compliance utilizes templates developed for the NERC Compliance Program. The NERC Compliance Templates provide specific information regarding the NERC Standards, measurement, compliance and levels of

² For a description of monitoring performed by ERCOT Operations, see the Day-Ahead and Real-Time Operations Compliance Section below.

non-compliance. All Compliance Templates are posted on the ERCOT Compliance Web Page (<http://www.ercot.com/nerccompliance/compliance.htm>), including those for reliability-related Protocols and Operating Guides and those developed for the NERC Compliance Program. Additional Compliance Templates may be added in the future to address compliance monitoring issues as they arise. Existing templates may be amended and others developed as the ERCOT Protocols, Operating Guides and other procedures are modified.

The templates also outline a resolution process which includes review by ERCOT Compliance and ultimately the initiation of a formal enforcement action by the Executive Director of the PUCT, if necessary. If ERCOT Compliance concludes that ERCOT Operations or a Market Participant is not in compliance with an ERCOT Protocol or Operating Guide or NERC Standard, ERCOT Compliance will recommend that the non-compliant entity propose for ERCOT Compliance's review and approval specific corrective actions to correct the problem and achieve compliance. ERCOT Compliance will monitor the non-compliant entity's implementation of the corrective actions and provide reports of non-compliance to the PUCT Staff. The Executive Director of the PUCT may elect to institute a formal enforcement action which may result in further corrective action and/or administrative penalties for the non-complying entity, or the PUCT may request that the Attorney General seek a court order to compel compliance.

Notice to PUCT

ERCOT Compliance shall inform the PUCT Staff immediately if a material occurrence of non-compliance is not resolved after the System Operator has orally informed the Market Participant of the non-compliance. ERCOT Compliance will determine whether an occurrence of non-compliance is material based upon the level of risk to reliability associated with the non-compliance. The occurrence is not resolved if (a) the same instance of non-compliance is repeated more than once in a six-month period; or (b) the occurrence continues after ERCOT has first orally notified the operator of the Market Participant, and subsequently notified, orally or in writing, the supervisor of the operator of the Market Participant. For purposes of this document, the term "PUCT Staff" shall refer to the Executive Director of the PUCT, the Director of the Legal Division of the PUCT, and the Director of the Electric Industry Oversight Division of the PUCT or their designees, and all notices shall be sent to these individuals.

Corrective Actions

ERCOT Operations and Market Participants are required to comply with all applicable measures, and where non-compliance is established, the completion of corrective actions is also required. Additionally, the Protocols allow ERCOT to revoke a qualification to provide Ancillary Services for certain compliance violations. Currently, ERCOT does not assess penalties, but, if authorized to do so in the future (by the PUCT and/or NERC), ERCOT will adopt appropriate penalties as authorized. Violations will be escalated in successive steps per the Compliance Templates, unless the violation occurs during an event where the system is in an emergency condition or the violation is determined to cause or contribute to prolonging an emergency condition. In such case, the resolution process will be escalated as necessary to resolve the violation quickly. Finally, if the matter cannot be resolved by ERCOT Operations and ERCOT Compliance, ERCOT Compliance will refer the matter to PUCT Staff. The Executive Director of the PUCT may elect to institute a formal enforcement action which may result in further corrective action and/or administrative penalties for the non-complying entity, or the PUCT may request that the Attorney General seek a court order to compel compliance.

Change Process

ERCOT may amend the terms of this Process upon forty five (45) days advance notice to the PUCT via filing proposed changes in the appropriate docket and via email to all Market Participants registered with ERCOT identifying the docket in which the proposed changes were filed. The proposed changes will take effect 45 days after ERCOT has provided notice of such changes provided that no party has contested the changes at the PUCT and the PUCT Staff has indicated, via filed comments, that it has no objection to the proposed changes. If the proposed changes have been contested, they will take effect (as written or as modified) only upon Order of the PUCT.

Areas of Compliance Activity

I. Day-Ahead and Real-Time Operations Compliance

ERCOT System Operations has the day-to-day responsibility for addressing Protocol and Operating Guide non-compliance issues as they relate to day-ahead and real-time operations. System Operations will routinely monitor Market Participant activities to ensure compliance and identify material occurrences of schedule control error, failing resource plan performance measures, failure to follow dispatch instructions within the required time, failure to meet ancillary services obligations, failure to submit mandatory bids or offers that may apply, and other instances of non-compliance of a similar magnitude. For operational purposes, System Operators will attempt to resolve problems with Market Participants and document problems in accordance with Operations Procedures. Most issues will be resolved at this point without further action being necessary. System Operators should determine what issues should be escalated based on the following three factors:

- Magnitude of the problem - occurrence of 100 MW or larger Schedule Control Error (SCE) for two hours or more, or frequently repeated (as determined by the ERCOT Operator); occurrences of a lesser magnitude within a 24 hour period (as determined by the ERCOT System Operator); Resource Plans that fail to provide for scheduled obligation; failure to follow dispatch instructions in the designated time frame; a single occurrence of a complete lack of mandatory bids, or frequently repeated occurrences of a lesser magnitude over a 30 day period (as determined by the ERCOT System Operator); or other failures of a similar magnitude that are not promptly addressed after notice from the ERCOT System Operator.
- Recurrence – Non-compliance with the same Protocol or Operating Guide requirement (including those violations informally resolved) occurring three or more times during a 72 hour period provided that ERCOT Operations has provided notice to the Market Participant of each incident of non-compliance (such notice may be written or oral). The System Operator will verify the recurrences through log entries, data recordings, phone logs or other available data.
- System conditions — The non-compliance with an ERCOT Protocol or Operating Guide or NERC Standard poses a significant and immediate risk to system security. The ERCOT System is considered to be in an insecure state whenever the ERCOT System status is such that the most severe single-contingency presents the threat of uncontrolled separation of cascading outages and/or large-scale service disruption to Load (other than Load being served from a single-feed transmission service) and/or

overload of a critical transmission element, and no timely solution is obtainable from the market. One example is an occurrence of 50 MW or larger SCE contributing to frequency error when frequency remains below 59.9 Hz or above 60.1 Hz for an interval. Another example is a failure to respond to Out of Merit Energy (OOME) Dispatch Instructions or Verbal Dispatch Instructions (VDIs) when a transmission constraint is in first contingency violation or actual thermal overload, and this state has been communicated to the violating party.

ERCOT Operations will initiate a dialogue with the Market Participant when non-compliance with the operational requirements of the ERCOT Protocols and Operating Guides is suspected. This dialogue is intended to clarify the issues related to the suspected non-compliance and result in an acceptable resolution of the issues. However, if the matter is not resolved, it will be escalated and documented (in logs or other means) for further investigation. The following steps will be followed when an issue must be escalated:

1. If the Market Participant has failed to respond to the ERCOT System Operator's inquiry to the satisfaction of the System Operator within two hours, unless the severity dictates a shorter time frame, or if the Market Participant has refused to respond, the System Operator will immediately escalate the unresolved issue to the ERCOT Shift Supervisor. The Shift Supervisor will attempt to resolve the problem. If the problem is not resolved within four (4) hours of when the incident first occurs, the Shift Supervisor will draft an Incident Report and submit it to the ERCOT Chief System Operator. The Incident Report shall include:
 - a. Date and time of incident, including the duration of the problem,
 - b. Protocol or Operating Guide or NERC requirement at issue,
 - c. Name of the Shift Supervisor on duty at ERCOT at the time of the event,
 - d. Name of the Market Participant personnel contacted,
 - e. Brief narrative of the events, corresponding to related ERCOT log entries, and
 - f. Time by which a response is expected and name of ERCOT Operations Staff to contact.

The Shift Supervisor will inform the Market Participant real-time operations staff that the matter is being escalated. The Shift Supervisor will review log entries to see that the issue is clearly identified in the logs and sufficiently documented. The Shift Supervisor will also make a log entry of the incident.

2. The Chief System Operator (or designee) will review the draft Incident Report, primarily for content and clarity to determine if the issue is accurately documented. The Chief System Operator (or designee) will email the Incident Report to the Operational Contact of the Market Participant within three (3) business days of when the incident first occurred, with copies also provided to ERCOT Compliance, the ERCOT Legal Department, the PUCT Staff and the Market Participant's ERCOT Client Representative. The ERCOT Client Representative will forward the Incident Report to other contacts identified for the Market Participant as appropriate.

The Market Participant shall provide a complete response, including a proposed Corrective Action Plan if applicable, to PUCT Staff, the Chief System Operator, ERCOT Compliance, and any other System Operations contact identified in the Incident Report within five (5) business days after the date the Incident Report is issued. If the Market

Participant fails to provide a copy of its response(s) to PUCT Staff, ERCOT will provide a copy of the Market Participant's response(s) to the PUCT Staff.

ERCOT Compliance and the Chief System Operator will review the Market Participant's response to determine if it is adequate. If necessary, the Chief System Operator and ERCOT Compliance will discuss the matter further with the Market Participant. ERCOT Compliance and Chief System Operator will make a determination regarding the adequacy of the Market Participant's response within three (3) business days and communicate this determination to the Market Participant. In the event ERCOT Compliance and Chief System Operator disagree on what actions should be taken next, ERCOT Compliance's decision shall control. ERCOT Compliance will track the matter until all of the issues are resolved by the Market Participant to the satisfaction of ERCOT Compliance.

3. For all incidents of non-compliance with the Protocols, depending on the Market Participant's violation history and the severity of the non-compliance, ERCOT Compliance will either:
 - a. file the Incident Report in ERCOT Compliance's records with a notation regarding the reason that the incident was not escalated further (e.g., ERCOT Compliance determined that support was lacking for the alleged violation),
 - b. file the Incident Report in ERCOT Compliance's records with a notation that the Incident Report has been successfully resolved, or
 - c. escalate the matter via a formal Protocol Violation Notice.

In all cases, ERCOT Compliance will notify the operational contact of the Market Participant, ERCOT Legal Department, the ERCOT Client Services Representative, and the PUCT Staff of the status of the incident. Compliance will provide an updated summary listing of all recent Incident Reports to ERCOT Operations and the PUCT Staff for review on a quarterly basis and upon request.

4. Notice of matters that are escalated as Protocol Violation Notices will be emailed and sent by ERCOT Compliance via Certified Mail, return receipt requested, to the Market Participant's Authorized Representative within three (3) business days after ERCOT Compliance receives the Market Participant's response to the Incident Report. The ERCOT Legal Department, Chief System Operator, ERCOT Client Services Representative, and PUCT Staff will be copied on all official Notices. The Market Participant shall respond to such Notice within five (5) business days with a Corrective Action Plan signed by Market Participant operations management. Upon receipt from the Market Participant, ERCOT Compliance will forward a copy of the Market Participant response to the PUCT Staff, ERCOT Legal, Chief System Operator, and Market Participant's ERCOT Client Representative.

At the same time the Protocol Violation Notice is sent to the Market Participant, ERCOT Compliance will post a brief description of the Protocol Violation Notice on the ERCOT Compliance Web Page, identifying the date, the Protocol violation, and the Market Participant involved.

To the extent that the subject matter of a Protocol Violation Notice also involves performance requirements in the NERC Compliance Program, additional notification and sanctioning processes from the NERC Compliance Program will apply.

ERCOT Compliance will contact the Market Participant to discuss the Protocol Violation Notice and Corrective Action Plan. ERCOT Compliance and the Chief System Operator will review the Corrective Action Plan and ERCOT Compliance will inform the Market Participant, ERCOT Client Representative, ERCOT Legal, and PUCT Staff whether it is adequate within three (3) business days after receiving it. In the event ERCOT Compliance and Chief System Operator disagree on the adequacy of the Market Participant's Corrective Action Plan, ERCOT Compliance's decision will control. The Market Participant shall inform ERCOT Compliance within one business day of when its Corrective Action Plan has been completed or needs to be modified. All modifications of the Corrective Action Plan must be reviewed and approved by ERCOT Compliance prior to implementation.

If the Market Participant fails to respond or provides an inadequate response to a Protocol Violation Notice or fails to adhere to the terms and schedule of an approved Corrective Action Plan, or the incident is a repeat occurrence involving the same issue within a rolling six-month period (as documented in an Incident Report), ERCOT Compliance will notify the Market Participant's senior management, PUCT Staff, and other entities as deemed appropriate by ERCOT Compliance.

See Attachment A for Day-Ahead and Real-Time Operations Compliance Flow Chart.

II. Data Gathering and Reporting Compliance

The Data Gathering and Reporting Compliance Process describes the actions taken by ERCOT Compliance and ERCOT Operations to assess whether a Market Participant is providing necessary data submittals. Data submittals include information submitted to ERCOT by Market Participants required on a periodic or as-requested basis. Market Participants must provide data requested by ERCOT in accordance with the schedule provided with the request.

The steps used in assessing the Data Gathering and Reporting Process Measures are as follows:

1. ERCOT Compliance either identifies non-performance directly or is informed of a problem by the ERCOT department or ERCOT subcommittee or working group that made the data request. If a due date has been missed or the data does not meet the requirements identified, ERCOT Compliance will send a Protocol Violation Notice via email and Certified Mail, return receipt requested, to the Market Participant's Authorized Representative, describing the missing information, the relevant protocol (if applicable), and requesting action to immediately correct the situation. The ERCOT Legal Department, ERCOT Client Services Representative, and PUCT Staff will be copied on all Protocol Violation Notices. At the same time the Protocol Violation Notice is sent to the Market Participant, ERCOT Compliance will post a brief description of the Protocol Violation Notice on the ERCOT Compliance Web Page, identifying the date, the Protocol violation, and the Market Participant involved.
2. Once the Market Participant receives a Protocol Violation Notice, it must provide a response that includes a Corrective Action Plan by the due date specified by ERCOT Compliance.

3. ERCOT Compliance will contact the Market Participant to discuss the Corrective Action Plan or issues raised by in the Market Participant response. ERCOT Compliance will review the Corrective Action Plan with the ERCOT department or ERCOT subcommittee or working group that originally requested the data if appropriate and will either approve the Corrective Action Plan or advise the Market Participant of the additional measures that must be taken to correct the problem identified by ERCOT Compliance. Any modifications to the Corrective Action Plan must be approved by the Compliance Office before they are implemented. Corrective Action Plan implementation will be tracked and failure of a Market Participant to respond to a Protocol Violation Notice or to adhere to the terms and schedule of an approved Corrective Action Plan, or the recurrence of a violation, will result in further action by ERCOT Compliance. In the event of such failure, ERCOT Compliance will notify the Market Participant's senior management and PUCT Staff and take other actions (including termination of the Market Participant's agreement(s) with ERCOT) as deemed appropriate by ERCOT Compliance.
4. The Market Participant will inform ERCOT Compliance whenever implementation of its Corrective Action Plan has been completed or modification is necessary. Any modifications to the Corrective Action Plan must be approved by ERCOT Compliance prior to implementation.
5. To the extent that the subject matter of a Protocol Violation Notice also involves performance requirements in the NERC Compliance Program, additional notification and sanctioning processes from the NERC Compliance Program will apply.

See Attachment B for Data Gathering and Reporting Process Flow Chart.

III. Market Participant Audit and Self-Certification

Many aspects of Market Participant ability to meet Protocol and Operating Guides requirements are best monitored through an audit process. ERCOT Compliance will use a comprehensive approach adapted from the NERC Compliance and Certification Program and past ERCOT Control Area Certifications. ERCOT Compliance will also conduct selective audits focused on particular items when deemed necessary by events or requests.

ERCOT Compliance staff will comprise the audit teams. Personnel from other ERCOT Operations groups or consultants hired by ERCOT may also participate on the audit teams. The audits will generally apply to Qualified Scheduling Entities (QSEs) with a Resources and Transmission Service Providers (TSPs) that act as Transmission Operators, although they may also apply to other QSEs, TSPs, Distribution Service Providers (DSPs), and Resource Entities (REs). ERCOT Compliance will plan for a comprehensive audit on a three-year cycle for QSEs with Resources and Transmission Operators.

In years when a Market Participant is not audited, ERCOT may request compliance self-certification from the Market Participant using electronic forms developed and distributed by ERCOT Compliance. The Market Participant, using these forms, must certify that it is in compliance with each designated measure or disclose any non-compliance and submit the self-certification to ERCOT Compliance by the date specified in the request by ERCOT Compliance. Spot checks may be performed by ERCOT Compliance on a sample of these self-certifications by telephone or site visit. Deficiencies found in self-certifications and spot checks will be treated as if they were audit findings (see Audit Process below), and Corrective Action Plans will be

requested by ERCOT Compliance. The following process will be used by ERCOT Compliance to conduct a Market Participant compliance audit:

1. Arranging and performing the audit:

- Prior to auditing the Market Participant, the Audit Team will establish a date for the audit to take place with the Market Participant and its ERCOT Client Services Representative.
- Approximately six (6) weeks prior to the audit, the Audit Team will provide the Market Participant with the appropriate "Market Participant Review Questionnaire."
- The Market Participant shall provide written answers and return the completed questionnaire to the Audit Team Leader by no later than two (2) weeks prior to the audit. ERCOT Compliance will notify the PUCT Staff and ERCOT Client Services if the completed questionnaire is not returned to the Audit Team leader as required.
- ERCOT Compliance will review the completed questionnaire with ERCOT Operations.
- The Audit Team will conduct on-site meetings with the subject Market Participant. The agenda will include:
 - Reviewing the questionnaire.
 - Inspecting the facilities and equipment.
 - Interviewing management, Market Participant operators, and other Market Participant staff as appropriate.
 - Reviewing compliance and operational data.
- The Audit Team will complete a "Compliance and Evaluation Form."

The Audit Team will require that the Market Participant demonstrate to their satisfaction that the Market Participant operators and other applicable staff are familiar with the procedures outlined in the questionnaire and know how to implement them.

2. Within four (4) weeks following the Market Participant audit, the Audit Team will provide a finalized report to the Market Participant for review. This report shall include any non-compliance issues the Audit Team discovers and a date by which the Market Participant will provide a Corrective Action Plan to address all areas of non-compliance. The audit report will include detailed descriptions of the Audit Team's findings, including areas of non-compliance. Audit findings may also include recommendations to improve coordination with ERCOT Operations that are not necessarily matters of non-compliance. Audit reports and details will be kept confidential. However, instances of non-compliance will be posted on the ERCOT Compliance Web Page after the Market Participant has the opportunity to review and respond to the audit report. Once the Market Participant receives the audit report, it shall provide ERCOT Compliance with a response that includes a Corrective Action Plan, if applicable, by the date specified by ERCOT Compliance. The Corrective Action Plan shall address all findings in the audit report, including areas of non-compliance and all areas that are in need of improvement. The Corrective Action Plan must be signed by a member of the Market Participant's operations management.

3. ERCOT Compliance will contact the Market Participant to discuss the Market Participant response to the audit report. ERCOT Compliance will review the Corrective Action Plan and inform the Market Participant whether it is adequate. The Market Participant will inform ERCOT Compliance whenever its Corrective Action Plan has been completed or needs to be modified. Any modifications to the Corrective Action Plan must be approved in advance by ERCOT Compliance.
4. Unless the Market Participant response to an audit finding provides cause for reversal of an audit conclusion, findings of non-compliance that indicate violation of requirements in the Protocols or Operating Guides will be escalated via a Protocol Violation Notice. ERCOT Compliance will provide notice of matters that are escalated as Protocol Violation Notices by email and via Registered Mail to the Market Participant's Authorized Representative. The ERCOT Legal Department, ERCOT Client Services Representative, and PUCT Staff will be copied on all official Notices.
5. At the same time the Protocol Violation Notice is sent to the Market Participant, ERCOT Compliance will post a brief description of the Protocol Violation Notice on the ERCOT Compliance Web Page, identifying the date, the Protocol violation, and the Market Participant involved.
6. Corrective Action Plans will be tracked and failure of a Market Participant to adhere to the terms and schedule of an approved Corrective Action Plan, or the recurrence of a violation, will result in further action by ERCOT Compliance. In the event of such failure, ERCOT Compliance will notify the Market Participant's senior management and PUCT Staff and take other actions (including the termination of the Market Participant's agreement(s) with ERCOT) as deemed appropriate by ERCOT Compliance.
7. To the extent that the subject matter of a Protocol Violation Notice also involves performance requirements in the NERC Compliance Program, additional notification and sanctioning processes from the NERC Compliance Program will apply.

See Attachments C₁ and C₂ for Market Participant Audit and Self-Certification Process Flow Charts.

IV. Event Investigation

Significant events occasionally occur involving the ERCOT Transmission System and Generation Resources. Often, these events require investigation to determine the root cause and to identify lessons learned and whether the event was an isolated occurrence or one that requires further analysis. This analysis is needed to determine if the system (s) and equipment involved are operating correctly and are being properly applied, maintained, and/or tested.

This document defines the roles of ERCOT Compliance, ERCOT Operations and involved Market Participants as well as the coordination between these entities is required during an investigation of a significant event. This process is meant to accomplish the following:

1. Identify and define the criteria for determining a significant event.
2. Define the timetable for the investigation process.
3. Define how information gathered from Operations and by ERCOT Compliance will be compiled.

4. Define the follow-up process related to remedial action plans or other mitigation efforts that may result from the investigation.
5. Define closure of the investigation process.

A. Significant Events:

Significant events are those events that jeopardize the reliability of all or part of the ERCOT system. For purposes of this event investigation process, significant events include, but are not limited to, the following:

1. Emergency Electric Curtailment Plan (EECP) implementation
2. Emergency Notice issued
3. Simultaneous loss of any combination of three generating units, transmission lines, and autotransformers (138KV and above)
4. Special Protection System (SPS) activation
5. Remedial Action Plan (RAP) or Mitigation Plan (MP) implementation requiring load shedding
6. Under frequency relay operations (or frequency deviations greater than .3 Hz. from scheduled frequency)
7. Sustained voltage deviations greater than 5% on 345kV system
8. First contingency security violations for significant transmission elements (list of elements to be defined)
9. Failure of computer systems at ERCOT, QSE, or TO
10. Voltage collapse on portions of 138 kV or 345 kV system
11. Loss of an ERCOT, QSE, or TO control center
12. Black Start Plan initiation
13. Uncontrollable loss of 150 MW or more of firm load shed for more than 15 minutes from a single incident
14. Any event determined by the ERCOT Reliability and Operations Subcommittee (ROS) to be significant
15. ERCOT failure to meet NERC Performance Standards related to frequency control or transmission security

B. DOE Reportable Events:

There are several Department of Energy (DOE) reportable events required of electric utilities and reliability coordinators. The timely submission of Form OE-417 by those required to report these events is mandatory under Section 13 of the Federal Energy Administration Act of 1974 (Public law 93-275). These events should be reported by those entities that are responsible for the area(s) in which the events occur. These entities should make the report to the DOE and copy ERCOT Compliance. ERCOT Compliance will provide a copy of these reports to ERCOT Operations.

The events which require reporting to the DOE are as follows:

1. Uncontrolled loss of 300 MW or more of firm system load for more than 15 minutes from a single incident.
2. Load shedding of 100 MW or more implemented under emergency operational policy.

3. Electrical System separation (islanding) where part or parts of a power grid remain(s) operational in an otherwise blacked out area or within the partial failure of an integrated electrical system.
4. System-wide voltage reductions of 3% or more.
5. Public appeal to reduce the use of electricity for purposes of maintaining the continuity of the electric power system.
6. Actual physical attack that causes major interruptions or impacts to critical infrastructure facilities or to operations.
7. Suspected physical attacks that could impact electric power system adequacy or reliability; or vandalism, which target components of any security systems.
8. Actual cyber or communications attack that causes major interruptions of electrical system operations.
9. Suspected cyber or communications attacks that could impact electric power system adequacy or vulnerability.
10. Fuel supply emergencies that could impact electric power system adequacy or reliability.
11. Loss of electric service to more than 50,000 customers for 1 hour or more.
12. Complete operational failure or shutdown of the transmission and/or distribution electrical system.

C. Event Identification:

ERCOT Operations shall identify and report significant events that come to its attention to ERCOT Operations Support and ERCOT Compliance. ERCOT Operations shall record significant events in the Operations logs and notify ERCOT Compliance and Operations Support by email within one hour after the event occurs. ERCOT Compliance will notify the PUCT Staff and ROS of significant events within one business day and provide the status of on-going investigations at the next regularly scheduled ROS Meeting and to the PUCT Staff at least monthly or as requested by PUCT Staff.

D. Fact Gathering:

Much of the fact gathering regarding these events will be conducted by ERCOT Operations Support. The essential information of the event – such as specific information on what units tripped, which transmission facilities operated, where under frequency relays tripped, amount of load shed, system frequency deviations, duration of event, procedures followed, etc. – will be compiled by Operations Support using data available from ERCOT's systems. ERCOT Operations Support will make initial information requests to Market Participants to validate ERCOT data or supply missing data. From this baseline data, ERCOT Operations Support will construct the approximate timeline and sequence of events in a brief report, and indicate additional details needed from Market Participants. Operations Support will forward the report to ERCOT Compliance within 10 business days after the event has come to the attention of ERCOT Operations. ERCOT Compliance will make additional requests for data from ERCOT Operations and Market Participants as needed. Information must be provided to ERCOT Compliance within five (5) business days of the request, unless a different deadline is specified by ERCOT Compliance.

E. Investigations:

ERCOT Compliance will investigate the event using the data gathered from ERCOT Operations and Market Participants. From the data gathered, ERCOT Compliance will attempt to determine the cause(s) of the event.

ERCOT Compliance will draft a report detailing the event and make recommendations that will include, as necessary and appropriate, actions required to avoid future occurrences of the event. If necessary for report development, ERCOT Compliance may solicit input from ROS Working Groups. The report will be distributed to and discussed with the ROS as directed by the ROS Chair, and a copy will be provided to the PUCT Staff. Depending on the seriousness of the event, reports in most cases shall be completed by no later than 60 calendar days after ERCOT Operations receives notice of the event. If ERCOT Compliance is unable to complete its report within 60 days, ERCOT Compliance shall notify ROS by no later than 45 days after ERCOT Operations receives notice of the event of the date it expects its report to be complete and provide an explanation of why the report could not be completed within 60 days.

F. Follow Up:

ERCOT Compliance will follow up with Market Participants and/or ERCOT Operations on any remedial action plans or other corrective actions that are identified during or as a result of the investigation. ERCOT Compliance will report to the ROS (at the next ROS meeting) and PUCT Staff (within one business day) when the investigation is closed.

If the results of an investigation indicate that reliability has been compromised due to ERCOT Protocol or Operating Guide violations, ERCOT Compliance will escalate the event as a Protocol Violation Notice in a timely manner. ERCOT Compliance will deliver the Protocol Violation Notice by email and via Certified Mail, return receipt requested, to the Market Participant's authorized representative. The ERCOT Legal Department, ERCOT Client Services Representative, and PUCT Staff will be copied on all official Notices.

At the same time the Protocol Violation Notice is sent to the Market Participant, ERCOT Compliance will post a brief description of the Protocol Violation Notice on the ERCOT Compliance Web Page, identifying the date, the Protocol violation, and the Market Participant involved.

To the extent that the subject matter of a Protocol Violation Notice also involves performance requirements in the NERC Compliance Program, additional notification and sanctioning processes from the NERC Compliance Program will apply.

If the investigation indicates that Protocols or Operating Guides Revisions are required, the ROS will assign this task to the appropriate working group(s).

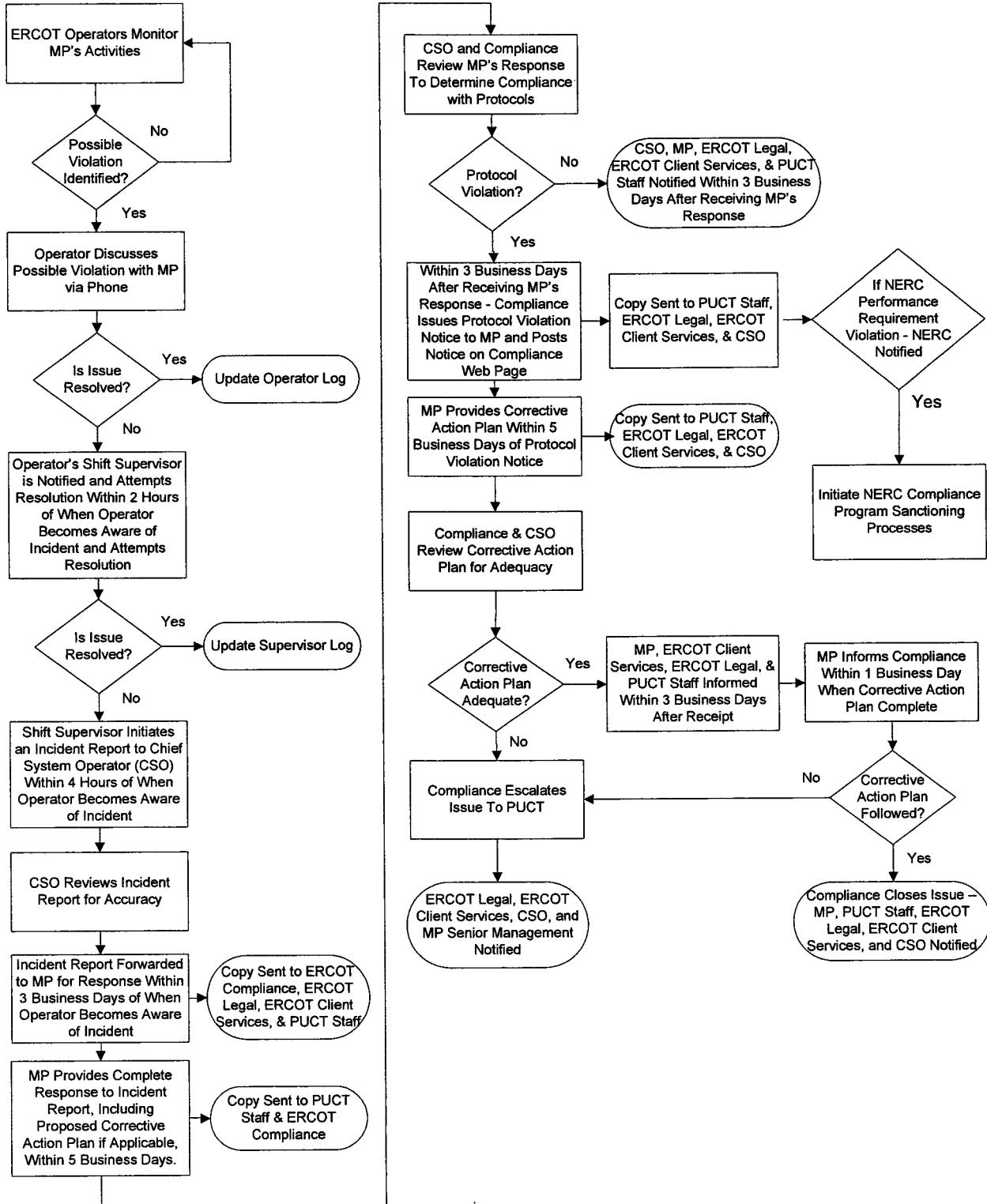
ERCOT Compliance will file and post the report, subject to ERCOT Protocol provisions relating to the disclosure of Protected Information, on the ERCOT Compliance Web Page after the investigation has been closed.

See Attachment D for the Event Investigation Process Flow Chart.

V. Other Violations that Impede Operations or Reliability

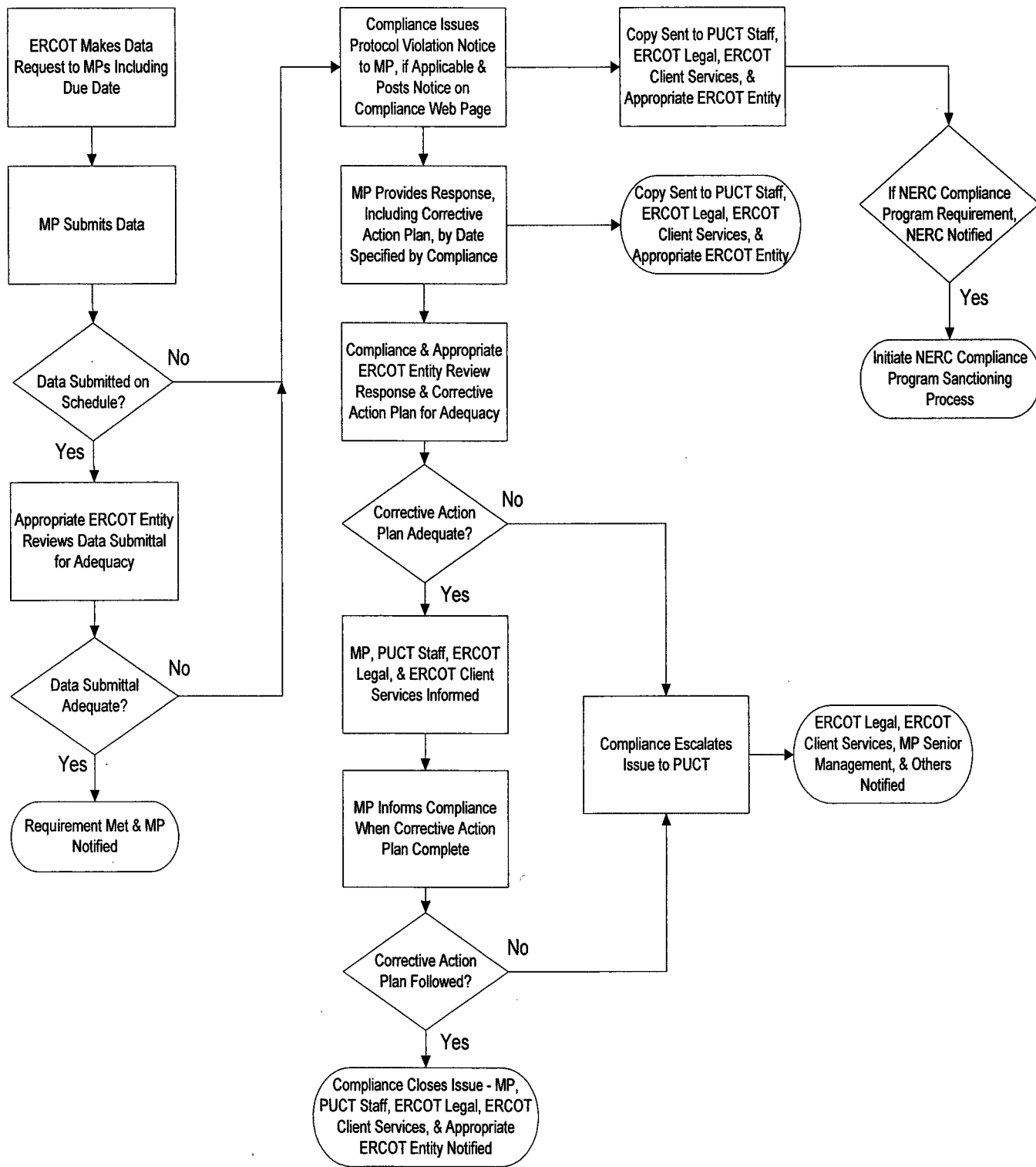
In the event that ERCOT experiences circumstances (outside of real-time operations) where material occurrences of non-compliance with ERCOT Protocols or Operating Guides have the potential to impede ERCOT operations or represent a risk to system reliability, ERCOT Compliance shall work with the Market Participants involved to remedy the non-compliance. If compliance is not achieved by the Market Participant after ERCOT Compliance has provided oral or written notice to the management of the Market Participant and a reasonable timeframe to respond, ERCOT Compliance shall report the non-compliance to the PUCT Staff within three business days of the Market Participant's deadline for response. ERCOT Compliance shall also report to the PUCT Staff any such violation repeated by the same Market Participant within a six-month period.

Day Ahead and Real-Time Operations Compliance

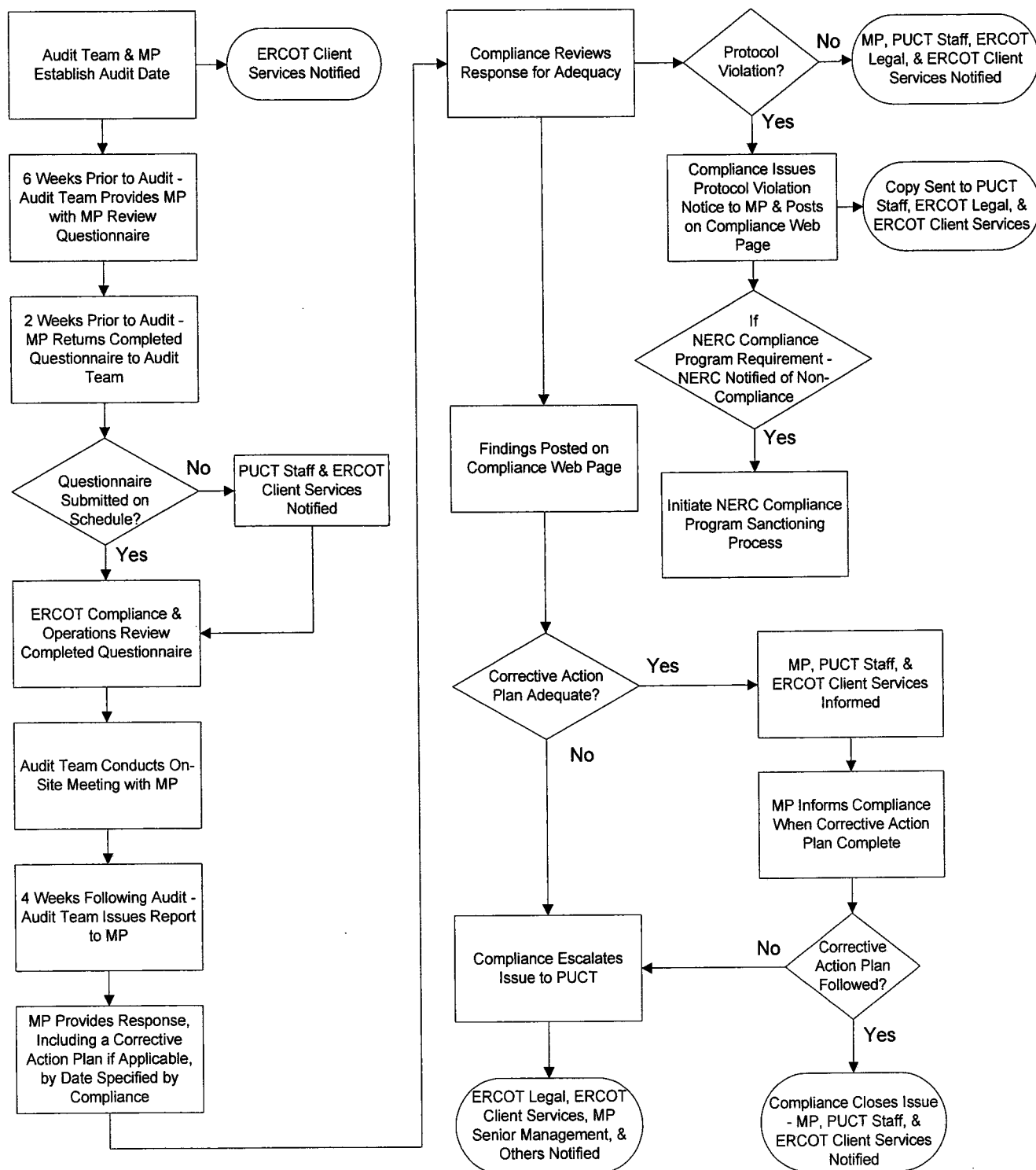


Attachment B

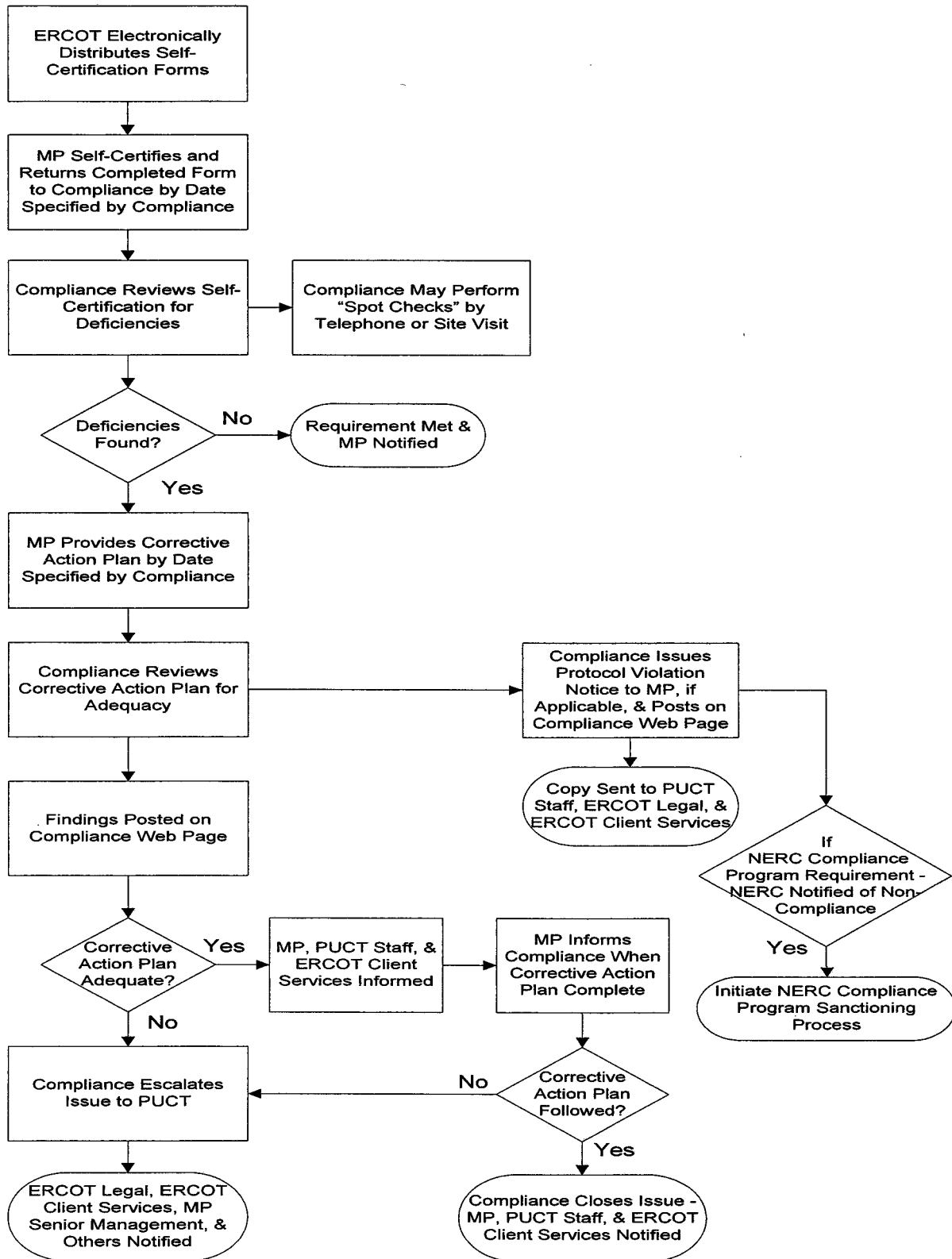
Data Gathering and Reporting Process



Audit Process



Self-Certification Process



Attachment D

Event Investigation Process

