

TAC Report

***Presentation to the
ERCOT Board of Directors
June 20, 2006***

TAC Summary

- **3 PRRs for Approval**
 - 1 No System Changes
 - 2 Urgent
 - With System Changes and FTE Impact
- **Response to BOD Action Items**
 - BOD Approval Processes
 - Review Participant Funding Pros & Cons
- **Hot Topics**

PRR 650 – *Balancing Energy Price Adjustment Due to Non-Spinning Reserve Service Energy Deployment*

<i>Purpose (TXU Wholesale, IOU)</i>	<i>Requires ERCOT to notify market of NSRS deployments (start/stop); requires ex-post manual recalculation of MCPE to reflect MCPE without NSRS energy deployment and subject to MCSM</i>	
<i>Benefit</i>	<i>Accurate price signals of depleted UBES stacks will encourage additional generation to come on-line; should also improve reliability</i>	
<i>Market Impact</i>	<i>Minor impact due to infrequency of NSRS deployments; may increase MCPE during some of the few intervals when NSRS is deployed</i>	
<i>System Change</i>	<i>No</i>	<i>N/A</i>
<i>Assumptions</i>	<i>N/A</i>	
<i>TAC Vote</i>	<i>TAC recommended approval with one against (consumer) and 7 abstentions (consumer, coop, MOU, IOU); all market segments were present</i>	
<i>Effective Date</i>	<i>July 1, 2006</i>	

PRR 650 – Balancing Energy Price Adjustment Due to Non-Spinning Reserve Service Energy Deployment

<i>Item Reviewed</i>	<i>No Impact</i>	<i>Impact</i>	<i>Description</i>
<i>Budget</i>			
<i>Staffing</i>			Existing staff will perform manual recalculations, notice and settlement
<i>Computer Systems</i>			
<i>Business Functions</i>			
<i>Grid Operations</i>			
<i>Credit Monitoring/ Liability</i>			

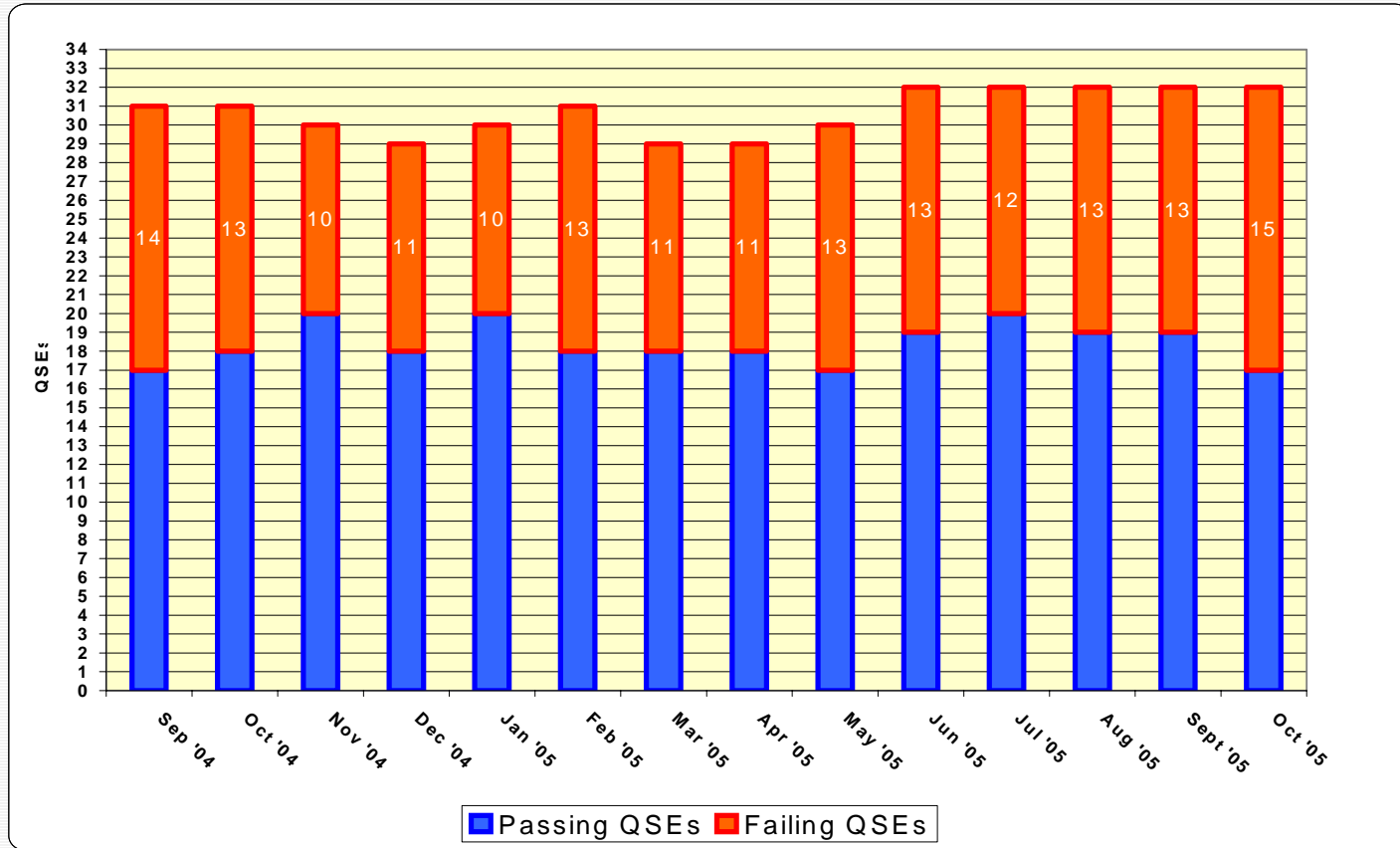
PRR 661 & 662: Background

- PRR 525 SCE Performance and Monitoring passed by BOD on April, 19, 2005.
 - Prior to PRR 525, performance monitored only for QSEs providing regulation service.
 - After PRR 525, performance monitored for all Resource QSEs.
 - PRR525 scores first reported to BOD in December 2005.

As Reported to BOD 12/05



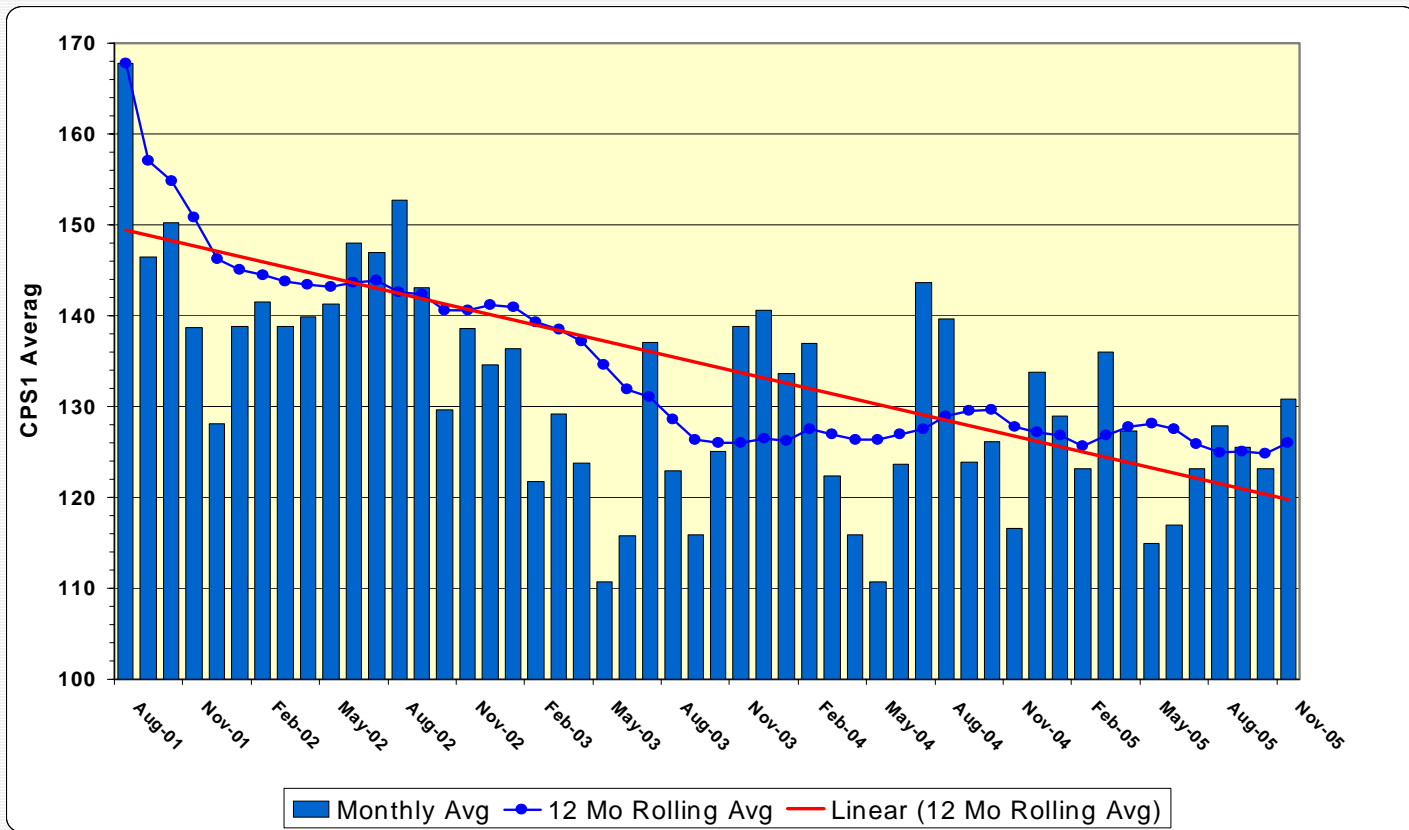
QSE PRR525 10-Minute Performance



As Reported to BOD 12/05



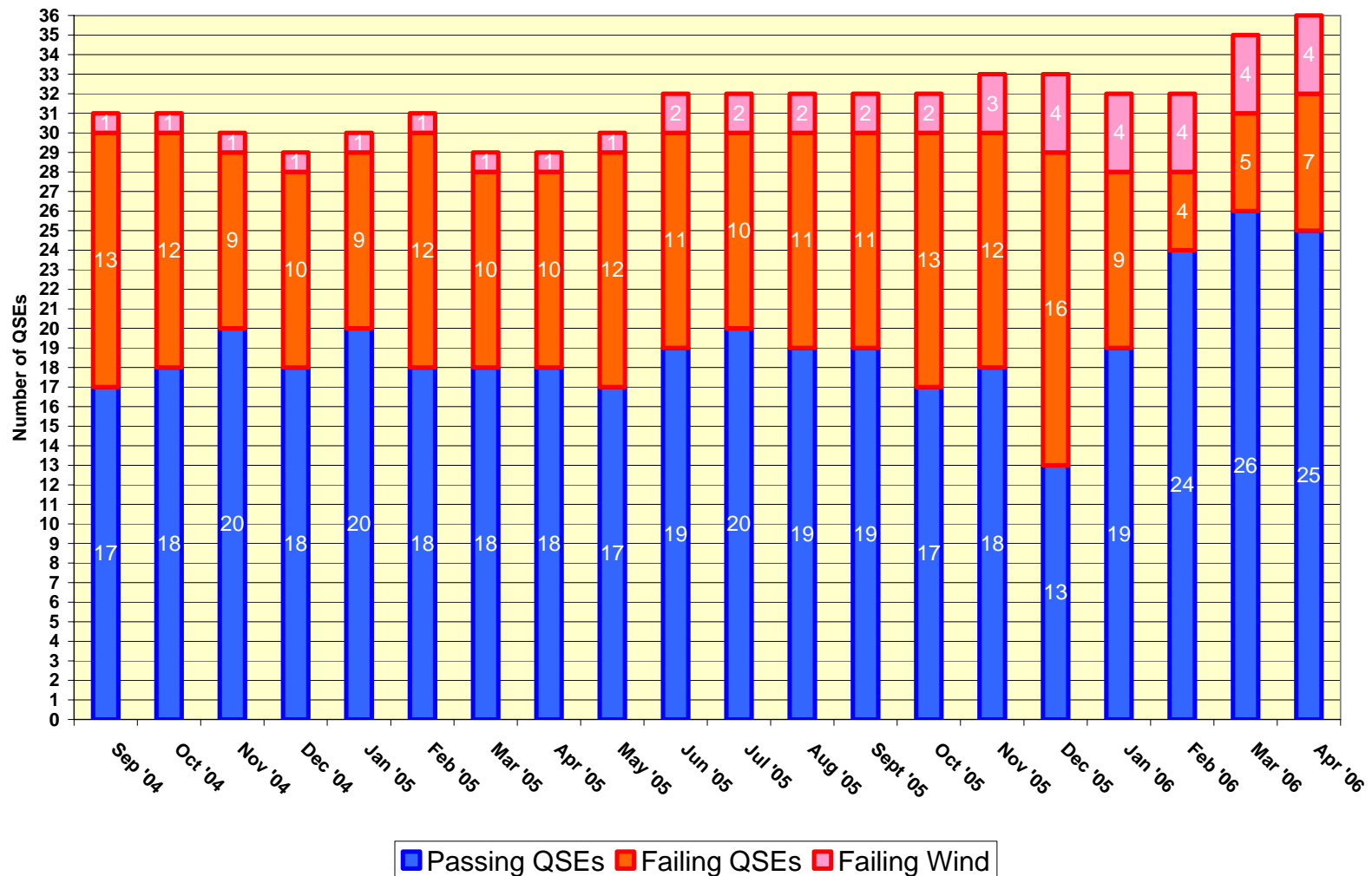
ERCOT's CPS1 12 Mo. Rolling Average



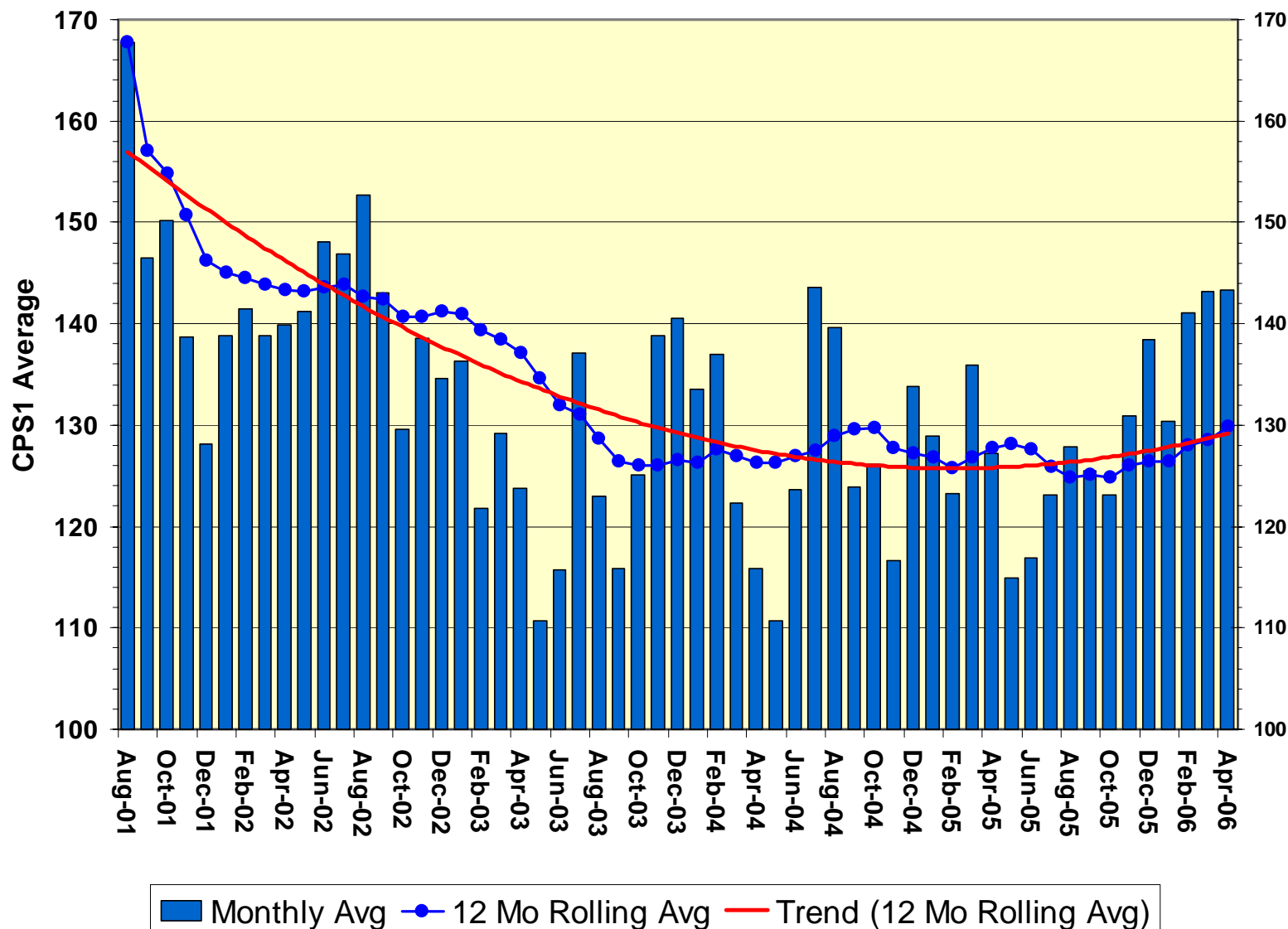
PRR 661 & 662 Background (con't)

- Enforcement of PRR 525:
 - There is no specific enforcement mechanism in PRR 525.
 - ERCOT Compliance Staff (in 12/05 BOD report): possible disqualification from providing ancillary services for QSEs failing PRR 525 for six consecutive months.
 - 6.10.12—ERCOT may revoke any or all AS qualification of any QSE providing an AS for continued underperformance.
 - Became known as “the death penalty.”
 - WMS established the Frequency Task Force.
 - WMS, PRS & TAC approved PRR 661 & 662.

PRR 525 Scores—Latest Report



ERCOT CPS1 12 Month Rolling Average—Latest Report



Key Features of PRR 661

- Maintains existing SCE Performance Measure.
 - 10-minute measure applied to all resource QSEs in all intervals.
 - Requirement to pass 90% of all intervals in each month maintained.
- Applies financial penalties to non-performers.
- Creates financial incentives for compliance.
- Provides physical penalties for very poor performance, without death penalty shock.
- Provides adjustment mechanism to scale financial penalty factor based on experience.

PRR 661 – Performance Enforcement Criteria -- **URGENT**

<p><i>Purpose</i> (PSEG – Independent Generator)</p>	<p><i>Creates criteria for SCE performance enforcement;</i> <i>Urgent due to PRR 525 being in effect</i></p>	
<p><i>Benefit</i></p>	<p><i>If a large QSE is eliminated from the market, the Market Clearing Price (MCPE) will spike to a higher clearing price. This PRR eliminates price shock if a large QSE is eliminated from the Ancillary Services market.</i></p>	
<p><i>Market Impact</i></p>	<p><i>N/A</i></p>	
<p><i>System Change</i></p>	<p><i>Yes</i></p>	<p><i>Project needed to automate manual work-around</i></p>
<p><i>Assumptions</i></p>	<p><i>Avoids price impact from large QSE disqualification</i></p>	
<p><i>TAC Vote</i></p>	<p><i>TAC recommended approval with 1 opposed and 1 abstention (both IOU) segment; all market segments were present</i></p>	
<p><i>Effective Date</i></p>	<p><i>July 1, 2006</i></p>	

PRR 661 – Performance Enforcement Criteria -- **URGENT**

<i>Item Reviewed</i>	<i>No Impact</i>	<i>Impact</i>	<i>Description</i>
<i>Budget</i>		★	<\$100K, Initial Manual Workaround
<i>Staffing</i>		★	1 FTE for ERCOT Compliance
<i>Computer Systems</i>		★	
<i>Business Functions</i>		★	Increased Compliance Activity
<i>Grid Operations</i>	★		
<i>Credit Monitoring/ Liability</i>	★		







Key Features of PRR 662

- Section 6.10.6 defines exception intervals for exclusion from SCE performance calculation.
- PRR 662 modifies the acceptable criteria for exceptions:
 - Clarifies/tightens unit trip exemption.
 - Addresses unit testing.
 - Addresses Uncontrollable Renewables.
 - Clarifies unit and portfolio capability violations.
 - Deletes RRS deployment exemption.

PRR 662 – *Modify A/S Deployment Performance Conditions-- **URGENT***

<i>Purpose</i> 0	<i>Clarifies current language exempting the intervals following a Forced Outage from SCE measure and adds other exemptions; Urgent due to PRR 525 being in effect</i>	
<i>Benefit</i>	<i>Avoids improper disqualification of Qualified Scheduling Entities (QSEs) and unnecessary depletion of Ancillary Service bid stacks and the resulting higher prices expected from tighter supply.</i>	
<i>Market Impact</i>	<i>N/A</i>	
<i>System Change</i>	<i>No</i>	<i>N/A</i>
<i>Assumptions</i>	<i>N/A</i>	
<i>TAC Vote</i>	<i>TAC recommended approval with 1 opposed and 1 abstention (both IOU segment); all market segments were present</i>	
<i>Effective Date</i>	<i>July 1, 2006</i>	

PRR 662 – *Modify A/S Deployment Performance Conditions-- **URGENT***

<i>Item Reviewed</i>	<i>No Impact</i>	<i>Impact</i>	<i>Description</i>
<i>Budget</i>			
<i>Staffing</i>			1 FTE (Same FTE as PRR 661)
<i>Computer Systems</i>			
<i>Business Functions</i>			
<i>Grid Operations</i>			
<i>Credit Monitoring/ Liability</i>			

Recommended TAC Actions

- *Approval*

- *PRR 650* – *Balancing Energy Price Adjustment Due to Non-spinning Reserve Service Deployment*
- *PRR 661* – *Performance Enforcement Criteria -- URGENT*
- *PRR 662* -- *Modify A/S Deployment Performance Conditions -- URGENT*

BOD Action Items: BOD Approval Processes

- PRRs/SCRs for BOD Approval
 - If no project required—follow current process.
 - If a project required:
 - Held at TAC until project priority leads to inclusion in the current budget cycle.
 - Released for BOD approval once budgeted priority reached.
 - If a project required for only parts of the PRR, PRS can recommend that part of the PRR proceed.
 - Quarterly reporting to the BOD on Unfunded Project List.
 - ERCOT PMO review of Unfunded Project List for cost-effective synergies with funded projects.
 - Projects on the Unfunded Project List for more than two years must be re-evaluated.

BOD Action Items: BOD Approval Processes (con't)

- Items to be “finally” approved by TAC:
 - Permanent exemptions from metering requirements.
 - Changes to load profiling methodology.
 - Temporary changes to Load Profile ID assignment and validation processes.
- Items to be formally reviewed by TAC prior to BOD consideration:
 - Transmission system planning process and project recommendations.
- Next Steps:
 - BOD Endorsement.
 - Develop PRRs as necessary to implement recommendations.

Market Participant Funding for Market Projects

Pros

- May accelerate completion of certain PRRs with benefits to particular market segments or companies.

Cons

- Adds a new level of complexity to contract negotiations
 - Entity that contributes financially to project could want some level of control over project
 - Potential funds management and confidentiality issues
- Challenge of addressing resource impacts between fee based and MP funded projects
 - Human resource allocation
 - Human resource costs
- Potential for parties to force option of MP funding if a project does not directly benefit a particular entity
 - Results in only projects supported by investors will be funded

Market Participant Funding for Market Projects (con't)

Pros

Cons

- Questions on how to address project overruns or investor abandoned projects
- Subsequent Protocol revisions could impact the value of a MP funded project
 - MPs may more readily overlook the impacts of such MP funded projects by another project if stakeholders have no financial stake in project
- Potential for equity issues whereby large stakeholders have an advantage over smaller entities

Hot Topics

- Notice of Market Guide revisions:
 - RMGRR034—Removal of Profile Working Group References.
 - SMOGRR005—Process for Settlement Metering Operating Guide Revisions.
- EECF event follow-up action items:
 - Review of the EECF steps.
 - Load forecasting methodology review forum.
 - Review of Resource Plans and how related to the EECF event.
 - Review of Settlement calculations for RPRS and OOM.
 - Review of LAAR performance.
 - Review of communications between ERCOT and market participants.
 - Review of scheduling planned generation outages.

More Hot Topics

- Proliferation of workgroups—review of the effectiveness/efficiency of work groups and task forces.
 - No new task force required.
- Lingering PRRs—knocked 3 more off the list.

Hot Topics: Performance of Replacement Reserve Service

- RPRS implemented as part of the EMMS 4 upgrade.
- RPRS live in Spring of 2006.
- Market Participants have identified an error in the cost allocation formulas—ERCOT-wide vs. zonal insufficiency.
- TAC passed the following resolution:

TAC agrees that it was and continues to be the intent of the TAC that an ERCOT wide procurement of RPRS result in charges to MPs that were net short on an ERCOT wide basis. TAC also directs the PRS to expeditiously/urgently process the PRRs necessary to correct this error in the Protocols equations in time for the June ERCOT Board meeting.
- Expect an urgent PRR in July.

