



MEMO

Date: November 7, 2006
To: ERCOT Board
From: Sam Jones, President & Chief Executive Officer
Subject: Ancillary Services Methodology

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 14, 2006

Agenda Item No.: 4b

Issue:

Section 6.4.1(2) of the ERCOT Protocols state that “ERCOT shall, at least annually, determine with supporting data, the methodology for determining the minimum quantity requirements for each Ancillary Service needed for reliability, including the percentage of Load acting as a Resource allowed to provide Responsive Reserve Service calculated on a monthly basis.”

Section 6.4.1(4) of the ERCOT Protocols require that “The ERCOT Board shall review and approve ERCOT’s methodology for determining the minimum Ancillary Service requirements and the monthly percentage of Load acting as a Resource allowed to provide Responsive Reserve Service.”

ERCOT Staff and TAC recommend revised requirements to be effective in 2007, as described in Attachment A.

Background/History:

Ancillary Services are necessary to maintain the reliability of the ERCOT system. The ERCOT Protocols define these Ancillary Services and charge ERCOT with determining a methodology for the minimum levels of Ancillary Services required. ERCOT Staff developed proposed changes to the methodology previously approved by the ERCOT Board. The revised methodology description is attached hereto as Attachment A. The revised methodology was reviewed and approved by TAC at its November 2, 2006 meeting.

Key Factors Influencing Issue:

Ancillary services are necessary to ensure that there are sufficient resources to serve system load and maintain system frequency in the ERCOT system. Determining the minimum amount of services required to do this is based on operating experience, analysis and professional judgment. The proposed methodology reflects ERCOT’s best judgment on minimum Ancillary Services needed for the ERCOT Single Control Area. By necessity, some flexibility in these requirements is necessary to accommodate actual conditions. The proposed methodology was



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reviewed and endorsed by the Reliability and Operations and Wholesale Market Subcommittees and was approved by TAC.

The only changes from the 2006 Methodologies for Determining Ancillary Services Requirements document approved by the Board last year as shown in red-line in Attachment A are:

- Some non-substantive editing to improve readability and clarity of the document.
- Determination of the Balancing Down energy requirement will be based on the prior month and corresponding month of the previous year actual usage instead of the average of the prior three months.
- Eliminated an unnecessary and unused method for determining Regulation Reserve requirements during periods of large schedule changes.
- Added flexibility to obtain Non-Spinning Reserve in excess of capacity of largest generation unit for load forecast uncertainty
- Determination of need for Non-Spinning Reserve Service for the next day due to not having a large amount of spinning reserves will be based on projected Resource Plans for the next day rather than historical day-before levels. The definition of a “large amount” of spinning reserve was reduced from 4,600 MW to 3,300 MW.

Alternatives:

(1) Approve the recommendation on the ERCOT Methodologies for Determining Ancillary Service Requirements as approved by TAC or as modified by the Board; (2) reject the recommendation, leaving current methodology unchanged; or (3) remand to ERCOT Staff with instructions.

Conclusion/Recommendation:

TAC and ERCOT Staff recommend that the Board approve the proposed changes to the methodology for determining Ancillary Service requirements as presented herein.