

COMMENTS OF CHAPARRAL STEEL AND NUCOR ON VARIOUS LTSTF ISSUES

I. THE CURRENT TIMELINE ENVISIONED FOR THE LTSTF IS UNWORKABLE AND SHOULD BE MODIFIED

At the first meeting of the task force, the group selected October 1, 2007 as the target implementation date for a revised EILS program and discussed an LTDTF timeline intended to meet that objective. The timeline currently contemplated by LTSTF, if not modified, will have an adverse impact on ERCOT's implementation of the current, Commission-approved EILS program, is inconsistent with the expectations of the Commissioners, and will result in premature and hastily-crafted EILS program modifications

For the ERCOT staff, the proposed LTSTF time-line will necessarily divert the staff's full attention from the far more urgent objective of successfully performing the tasks explicitly expected of it under the EILS rule, such as educating potential program participants about the program, promoting program participation, developing baselines for individual loads, getting loads enrolled, monitoring performance testing, refining financial settlement procedures, and setting up compliance monitoring procedures. That is a full agenda for the ERCOT staff working on EILS matters.

Because EILS is an operating tool for ERCOT specifically requested by ERCOT, and given that the ERCOT staff must affirmatively consent to any changes in the structure of the current service, it is critical that a time-line be adopted for LTSTF which allows the ERCOT staff to provide significant substantive input on any changes to the current program without shortchanging the daunting task of making sure the current program gets up and running successfully. Forcing the staff to divert its full attention from the objective of getting the current EILS program up and running could doom the EILS program to failure before it even gets up and running.

The concept that the Commission-mandated EILS service may be of extremely short-term duration will also affect potential EILS resources. This is an entirely new program for Texas loads. Industrial plant managers, as well as individuals responsible for energy procurement for non-industrial loads, will want to understand its costs and potential benefits before committing resources to it. Those individuals will recognize that they will have to develop the

ability to submit bids, calculate baselines, run tests and train every level of employee on the new procedures. It will be difficult for energy managers to justify such a commitment of their resources if they view the program as only lasting for a few months and/or being subject to unacceptable modifications before the first full contract period has even been completed.

If the Commission had indicated that it wanted an urgent dash for modifications to this brand new program, or for adoption of a replacement service, some of these problems would be unavoidable. However, the Commissioners did the exact opposite. They *removed* a sunset date of October 1, 2007 from the proposed rule. They established a cost cap that will cover the program through January 2009. They required reporting on the effectiveness and benefits of the program, with the report to be filed 70 days after the end of the contract period. These actions all reflect the expectation that modifications to the current EILS program, if any, will follow only after ERCOT has gained a reasonable amount of operational experience with the new program.

If changes to the current program are to be made, they should be made at the very earliest after the first full contract period, with the ERCOT program evaluation report in hand. Such modifications could realistically be adopted in early 2008, but any attempt to do so this summer is exceedingly premature, at best.

If the task force attempts to craft one or more “permanent” EILS or EILS replacement programs on the currently contemplated taskforce timeline, it will fail to take into account factors that the Commission has ordered be included in any permanent solution. Subsection 25.207(h)(2) seeks ways of “bringing more resources (both interruptible load and generation) online through existing ancillary services.” ERCOT’s ongoing Ancillary Service study will not even be available until this fall.

The current schedule will also shortchange the deliberative process at ERCOT, for no apparent reason. The task force will be working on complex issues that have so far defied consensus with only two or three meetings. Every review of the draft protocols by ROS, WMS, PRS, TAC and the Board will have to be done on an expedited basis. The Demand Side Working Group will likely have to be relegated the role of interested bystander under the contemplated timeline, notwithstanding that evaluating and making recommendations concerning demand response programs like EILS are part and parcel of the group’s core mission. If the LTSTF timeline is too compressed to allow the DSWG time to play a meaningful role in the EILS deliberative process, when will the DSWG ever be accorded relevance?

If the ERCOT stakeholder process is to be lent due credibility and weight with respect to demand response programs and related issues by the PUC Commissioners, it is incumbent upon the stakeholders to give the Commission-approved EILS program a reasonable opportunity to get up and running, and to operate for a sufficient period to critically evaluate the efficacy of the current program parameters before barging ahead with program changes.

As discussed below, both Nucor and Chaparral believe that programmatic changes could be implemented which would likely increase the success and efficacy of the current offering. Other interested parties undoubtedly do as well. However, before doing so what is sorely needed is a reasonable amount of practical operating experience with the current EILS program. Once some operational experience has been gained, and ERCOT has performed its required program evaluation, that information will provide a sound basis for undertaking permanent modifications to, or replacement of, the new EILS program. The LTSTF's time between now and then can best be devoted to a deliberate, thoughtful and comprehensive evaluation of full range of operational and programmatic solutions to the issues underlying the perceived need for EILS, with the allowance of adequate time for the preparation, submission and discussion of whitepapers addressing those potential solutions.

II. THE CONCEPTUAL UNDERPINNINGS OF THE CURRENT EILS PROGRAM ARE SOUND AND SHOULD BE RETAINED

In very large measure, the ERCOT staff and the PUC "got it right" with respect to the basic conceptual underpinnings of EILS service. The most essential components for a successful EILS program are already reflected in PUC Subst. R. 25.507 and PRR 705, and those components should be retained in any future iteration of EILS service. These include:

- Capacity reservation payments, providing a revenue stream for participants that is known and predictable, and that is not contingent upon the number or length of interruptions
- A baseline that is fully known and knowable in advance, providing a bidding and compliance safe-harbor
- Encouragement of participation by the widest possible load base, thereby providing a large participant pool and reducing the overall cost of the program
- Assurance that loads which are off-line at the time of a system emergency remain off-line and that loads which are on-line at the time system emergency

conditions are developing are not financially incentivized to remain on-line in order to be available for interruption

- Minimization of program administration costs by adhering to uncomplicated enrollment, contracting and performance requirements, and by use of an easily manageable number of contract periods during the year.

The steel companies have previously filed extensive comments, and made oral presentations to ERCOT addressing the criticality of these program elements to a successful EILS service offering. Rather than repeating those arguments here, the steel companies will defer doing so until such time as it becomes apparent that further exploration of these points is necessary.

III. THERE ARE A NUMBER OF PROGRAMATIC CHANGES THAT, IF MADE, WOULD LIKELY ENHANCE THE EFFECTIVENESS OF THE CURRENT EILS PROGRAM

Although the current EILS program has been given a solid foundation by the PUC and the ERCOT staff, there are a number of modifications which Chaparral and Nucor believe can and should, at an appropriate time, be made to further enhance the success of the program. Specifically:

- A minimum EILS program duration period of two years should be implemented to ensure a broad load participation base, and to provide ERCOT a valued operational tool during the potentially rocky transition from a zonal to a nodal market.
- The “pay as bid” structure should be replaced with a market-clearing price structure as soon as it becomes apparent that an adequate participant pool is available
- The EILS cost cap should be removed so that EILS is free to find true market value
- ERCOT staff should be given the latitude by rule and by Protocol, to change the program size parameters as may from time to time be necessary in order to maximize the operational benefit of the program to ERCOT, based upon their working experience with the program
- Self-provisioning options should be eliminated to increase market liquidity within an ERCOT-administered EILS market

- The impact of EILS loads should be explicitly recognized in ERCOT's demand, energy and installed reserve margin forecasts and calculations

IV. THE SCOPE OF WORK FOR THE LTSTF SHOULD BE SIGNIFICANTLY BROADER THAN SIMPLY EVALUATING MODIFICATIONS TO THE CURRENT EILS PROGRAM

In examining potential long-term solutions to the operational issues that gave rise to the current EILS rule, the LTSTF should examine in a deliberate and reasoned fashion all of the operational and programmatic options brought forward for consideration by stakeholders. This will require a substantial commitment of time and effort, but the undertaking is well worth it, as it may lead to very real improvements in system operational efficiency and reliability. Chaparral and Nucor suggest that the LTSTF consider the following issues as part of its deliberations:

- Implementation of a Tiered Frequency Response program for loads not participating in the Responsive Reserve market
- Imposition of a tiered frequency requirement for Responsive Reserve Service
- Modification of the Load/Generation ratio for procurement of Responsive Reserve service
- Implementation of a revamped BUL baseline and program structure
- Adoption of a capacity-based "long-term BUL" program contractually committing load to a pre-determined level of price-triggered demand response
- Refinement of the standard load profiles for non-demand metered classes
- Implementation of an ERCOT coordination requirement for planned generation facility outages
- Elimination of Non-Spin self-provisioning to increase the liquidity and success of the non-spin market
- Modification of the Non-Spin baseline to facilitate participation in the Non-Spin market by fluctuating loads (possibly coupled with an increase in the amount of Non-Spin acquired)

- Adoption of a capacity-based program for the deployment of diesel-fired generation during periods of capacity shortage

Each of these proposals is likely to have some degree of beneficial impact on overall system reliability, by inducing optimal behavior by loads and resources and/or by expanding the range of operational tools available to ERCOT operators. Chaparral and Nucor believe that the task force's mandate from TAC is broad enough to encompass each of these issues. Should the LTSTF have concern that it is not, then LTSTF should affirmatively seek clarification and, if necessary, an expanded mandate from TAC.

V. SUGGESTED SCHEDULE FOR LTSTF DELIBERATIONS

Chaparral and Nucor recommend that the LTSTF use the time between now and the submission date of the ERCOT staff's evaluation of its operational experience with EILS to examine a wide variety of potential long-term solutions to the operational and reliability issues underlying the perceived need for EILS, with a primary focus on the Nodal market. The LTSTF should establish a schedule providing for monthly meetings, with one or two topics to be fully debated and examined at each meeting. The parties should be encouraged to circulate their thoughts on each topic in writing, at least a week in advance of the meeting at which the topic is to be discussed, in order to promote productive dialogue on the issue. The meeting dates and topics should be established as early on in this process as reasonably possible so that the parties have time to prepare comments on the issues in which they have a particular interest or strong views. To the extent that specific topics constitute demand response solutions, the topics should be arranged in a manner that allows the DSWG sufficient time to coordinate its meetings as necessary to deliberate internally and provide input to the LTSTF. At such time as ERCOT provides its required operational assessment of the EILS program, the taskforce should then focus specifically on a "mid-course correction" for any elements of the program that have shown themselves to be problematic during the trial operating period, with a Spring 2008 target implementation date for such changes.

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