



Date: February 10, 2009
To: Board of Directors
From: Judith James, Standards Manager, Texas Regional Entity (RE)
Subject: Approval of Provision for ERCOT ISO to Participate and have a ¼ Vote in the Regional Standards Processes

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: February 17, 2009

Agenda Item No.: 13

Issue:

Approval of a Provision for the Electric Reliability Council of Texas, Inc. (ERCOT ISO) to Participate and have a ¼ Vote in the Processes (Provision), which was the subject of Standard Authorization Request (SAR) 001 and proposes to modify and clarify the Texas RE Standards Development Process (Process) to:

- Permit ERCOT ISO a vote of ¼ on all regional standards processes
- Clarify that the Texas RE Board will approve regional standards, variances, and standards process provisions, instead of the ERCOT Board
- Clarify the terms ballot pool and registered ballot body (RBB)
- Clarify the Reliability Standards Committee (RSC) voting procedures and the RBB qualification process

Background/History:

The Texas RE RSC is a balanced committee, comprised of the seven ERCOT region market segments. The RSC (1) considers and determines which regional SARs will be assigned for development in the ERCOT region, and (2) votes to recommend whether proposed regional standards, variances, or modifications to the Standards Development Process should be presented for a vote by all market participants, pursuant to the Texas RE Standards Development Process (Process). When Texas RE was first formed and initially drafted its processes, ERCOT ISO was not authorized to be a member of RSC or vote on actions thereof. (Under the ERCOT bylaws, ERCOT ISO is not considered a member and is not in any ERCOT market segment.)

ERCOT ISO initiated SAR-001 in December 2007 to request a revision to the Process to include the ERCOT ISO as a voting member of Texas RE's RSC. Using the Process to change the voting process is appropriate, pursuant to Appendix B, Section III of the Process: "Significant changes to this process shall begin with the preparation of a SAR and be addressed using the same procedure as a request to add, modify, or delete an ERCOT-Specific Reliability Standard."

The RSC accepted SAR-001 for development of this Provision in January 2008, and the Reliability and Operations Subcommittee (ROS) nominated a Standard Drafting Team (SDT) in



February, which was approved in March 2008. The SDT held its first meeting in early May to begin drafting the appropriate documents to give ERCOT ISO a vote in the regional standards processes. The documents needing revision to accomplish the original purpose of SAR-001 included the Texas RE Standards Development Process (Process) and the RSC Procedure.

In June, the SDT revised SAR-001 to also include the following:

- Clarification that the Texas RE Board of Directors would approve standards and provisions in the process instead of the ERCOT Board of Directors
- Revision of the Registered Ballot Body (RBB) Procedure to provide ERCOT ISO representation and a vote on the RBB
- Additional minor revisions to the standards development process documents to promote clarification and consistency of process (including the RSC voting procedures, the RBB qualification process, and the terms “ballot pool” and “registered ballot body”)

The SDT met approximately once per month to accomplish the revised purpose of SAR-001, and drafts of all three documents were completed in October 2008. The documents were posted for public comment in November 2008.

In December 2008, the RSC met to discuss all comments received. The primary issue presented to and commented upon by the public was the weight of the ERCOT ISO vote. The SDT was split on the appropriate weight to assign ERCOT ISO’s vote. Two team members wanted one segment vote, and three team members wanted a one-fourth segment vote. After considering all comments and analyzing the issue, the RSC voted to authorize the Texas RE Reliability Standards Manager (RSM) to assign a weight of a one-fourth segment to the ERCOT vote and to present the Provision for a membership vote and comment (using the Reliability Standards Tracking Site).

A ballot pool was established according to the Process and voting on the Provision commenced on the morning of January 19, 2009, for the required 15-day period. Voting ended on February 2, 2009, and the ballot results were certified and posted along with responses to all comments, on February 3 in accordance with the Process. The SDT in conjunction with the RSM prepared the responses. With the current seven segments, a standard requires a vote of at least 4.67 or higher to pass. This ballot passed with a 5.8 affirmative segment vote. On February 4, 2009, the RSC met to review the results and formally authorize this Provision to be submitted to the Texas RE and ERCOT Boards for approval.

The Process requires that a proposed standard be submitted to the regional entity Board of Directors (which is currently defined in the Process as the ERCOT Board) for consideration. The Process requires the Board to receive the following informational package (which is included as Exhibit A hereto):

- The draft Standard and any modification or deletion of other related existing Standard(s)
- Implementation Plan (including recommending field testing and effective dates) (There is



no formal implementation plan for this provision because it is only a process change that will be implemented upon final approval of all regulatory authorities.)

- Technical Documentation supporting the draft Standard
- A summary of the vote and summary of the comments and responses that accompanied the votes

The Board must consider the results of the voting, dissenting opinions or comments, and any advice offered by the RSC and may:

- Approve the proposed standard;
- Remand the proposed standard to the RSC with comments and instructions; or
- Disapprove the proposed standard without recourse.

The Board may not substantively modify the proposed standard. Once the standard is approved by the Board, the proposed modifications included in this provision to give ERCOT ISO a vote will be submitted to NERC for approval and filing with FERC.

Key Factors Influencing Issue:

The Process requires the ERCOT Board to approve, disapprove, or remand any proposed standard. Texas RE requests that the Texas RE Board provide the ERCOT Board with its recommendation regarding approval of the Provision to Give ERCOT ISO a ¼ Vote in the Regional Standards Processes.

Because ERCOT ISO is required to be compliant with all regional standards and variances approved by the RSC and the Board, it seems appropriate to provide ERCOT ISO a vote in the development process. Nearly all members agreed that ERCOT ISO should have some vote (although two market participants suggested otherwise) the primary member debate was regarding the weight of the ERCOT ISO vote. The ballot on the Provision to give ERCOT ISO a one-fourth vote passed, but comments included with the votes opposed to the Provision (which are provided in Exhibit A), indicated that some members believe ERCOT ISO should have a whole vote.

Members in favor of allowing ERCOT ISO a one-fourth vote argued that this would allow ERCOT ISO to be treated similarly with the other market segments. Although each segment currently has one vote, normally more than one member votes in a segment; so, member votes normally amount to only a fraction (and close to a one-fourth) of a vote. Members also argued that, while ERCOT ISO has significant reliability responsibilities, it does not have the same financial risks as other market participants. Because ERCOT ISO's funding originates from other market participants, members argued that ERCOT ISO would be biased toward "extra" reliability rather than the proper balance between reliability and economics. Some market participants argued that, because they had a good track record for developing rules for reliable operation of the ERCOT region, ERCOT ISO should receive the same voting privileges as other market participants (1/4 of a vote), regardless of its size or responsibility.



The primary argument in favor of ERCOT ISO receiving a whole vote, even though it is the only member of its segment, was that ERCOT ISO vote is registered for seven of the 14 NERC functions and has substantial reliability and NERC standard obligations. Given its role and history, ERCOT ISO possesses valuable information for review of regional variances and standards that may be necessary in the ERCOT region. In addition, allowing ERCOT ISO to have one full segment vote is consistent with the voting status of ERCOT ISO on the ERCOT and Texas RE Boards.

All proposed modifications to the regional standards development processes and procedures (including the clarification that the Texas RE Board, as the regional entity Board, and not the ERCOT Board, must approve standards) were not objected to and received no comments from voting members.

Texas RE recommends that ERCOT ISO receive a vote and recommends the Board approve all other modifications in this Provision as improvements to the Process.

Alternatives:

- Approve the Provision as written;
- Remand the Provision to the RSC with comments and instructions regarding the amount of vote allocated to ERCOT ISO;
- Remand the Provision to the RSC with comments and instructions regarding any other matters; or
- Disapprove the Provision without recourse.

Conclusion/Recommendation:

Texas RE requests that the Board take action on the Provision. The RSC recommended at its February 4, 2009 meeting that the Board approve the Provision, as approved by the RBB, to allow ERCOT ISO to have a one-fourth vote on all regional standards processes and to make all requested modifications to the Process and the other regional standards process documents.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) deems it desirable and in ERCOT's best interest to approve Provision for the ERCOT ISO to Participate and have a ¼ Vote in the Processes (Provision); and

WHEREAS, the Reliability Standards Committee has recommended approval of the Provision;

THEREFORE be it RESOLVED, that the Provision, a copy of which is attached hereto as Attachment A and incorporated herein for all purposes, is hereby recommended to the ERCOT Board by the Texas Regional Entity Board.

CORPORATE SECRETARY'S CERTIFICATE

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its February 17, 2009 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2009.

Michael G. Grable
Corporate Secretary