MEMORANDUM

TO: Mark Dreyfus, Chair, ERCOT Technical Advisory Committee

FROM: Lane Lanford, Executive Director, Public Utility Commission of Texas (PUCT)
Larry Grimm, CEO & Chief Compliance Officer, Texas Regional Entity (Texas RE)

DATE: December 8, 2008

SUBJECT: Nodal Protocol Section 8, Performance Monitoring and Compliance

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As you know, we expressed interest in Nodal Protocol Revision Request (NPRR) 097, Changes to Section 8, Performance Monitoring and Compliance (Formerly titled "Changes to Section 8 to Incorporate Role of TRE, the IMM, and the Concept of Market Compliance.) This NPRR made significant changes to Section 8 by replacing the specific compliance and reporting requirements with a broad requirement that Operating Guides be developed prior to the implementation of the Texas Nodal Market.

For the August 19, 2008, ERCOT Board Meeting, we provided a chart containing the areas that we believe should be addressed in the operating guides. Mike Grable provided this chart to the ERCOT Board with his memorandum dated August 18, 2008. For your reference, we are attaching a copy of Mike Grable's memorandum and the chart.

At that board meeting, the ERCOT Board approved NPRR097, as recommended by TAC, along with the submitted list of issues noted above. As required by NPRR 097 and the revised Section 8, monitoring programs and appropriate performance and compliance metrics (monitoring programs and metrics) must be established under the Nodal Protocols and Nodal Operating Guides prior to implementation of the Texas Nodal Market in order to ensure that electric system reliability and appropriate market operation are maintained after the transition to the Texas Nodal Market in ERCOT.

The PUCT and the Texas RE, due to our oversight, monitoring and enforcement roles, continue to be interested in the progress of the development of the monitoring programs and metrics pursuant to Section 8.

We would like to receive an update on the ERCOT and/or TAC plans for the development of the monitoring programs and metrics. We would also appreciate an update on the status of the work completed to date.

To be most helpful to us, the report would address all areas required by Section 8 of the Nodal Protocols (QSE and Resource Performance Monitoring, ERCOT Performance Monitoring, TSP Performance Monitoring, ERCOT Response to Market Non-Performance, and Frequency Response Requirements and Monitoring) and include:

- The plan and timeline for defining, developing, testing, and completing appropriate monitoring programs and metrics that depict measurable and acceptable performance and compliance for inclusion in Nodal Protocols and/or Nodal Operating Guides. Please explain any Metrics work that significantly impacts the Nodal Project scope, schedule, or cost. Also, please explain any related Metric activities associated with on-going synchronism work of the Zonal Protocols and the Nodal Protocols.
- The identification of the responsible organization(s) and individuals leading the overall Metrics effort and a description of the process being used to ensure the adequacy and completeness of the approved monitoring programs and performance and compliance metrics.
- Where possible, the identification of the type of Metrics and/or reports intended to support monitoring and enforcement functions for the NPRR097 areas.
- The identification of all Metrics which may require IT support beyond what is available today or already included in the development plan for monitoring and compliance with Zonal Protocol and/or Zonal Operating Guides.
- The plan for educating the market regarding compliance with the new Nodal Protocols and Nodal Operating Guides.

We appreciate your assistance with this matter and hope to receive the update by February 2, 2009. If you have any questions, please feel free to call Pam Whittington, Division Director of Oversight & Enforcement at the PUC at (512) 936-7245 or Victor Barry, Director of Compliance at the TRE at (512) 275-7416.

ERCOT

Date: August 18, 2008
To: Board of Directors
From: Mike Grable, General Counsel
Subject: Nodal Protocol Revision Request (NPRR) 097, Changes to Section 8, Performance Monitoring and Compliance (formerly titled "Changes to Section 8 to Incorporate Role of TRE, the IMM, and the Concept of Market Compliance")

Additional Material for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: August 19, 2008
Agenda Item No.: 9a

To the Board:

Please find attached a chart that Staff of the Texas Regional Entity (Texas RE or TRE) and the Public Utility Commission of Texas (PUCT) have prepared for the Board's consideration. The following text was prepared by PUCT Staff to explain the chart and the specific actions that Texas RE and PUCT Staff are requesting. ERCOT Staff has already prepared a Nodal Operating Guide Revision Request (NOGRR) template to carry the requested Guide language and can introduce it at the Board's request.

MG

From the PUCT Staff:

This NPRR was posted for the July Board Meeting and the PUCT requested that the Board delay voting on it so that we could evaluate the changes made to the Protocols. Since the Board meeting, PUCT Staff has discussed this matter with Larry Grimm and Susan Vincent at the TRE.

These Protocols address oversight of the market. The proposed revision makes significant changes by removing compliance and reporting requirements. These specific requirements have been replaced by a broad requirement that Operating Guides be developed prior to implementation of the Texas Nodal Market. The idea is that the Operating Guides would contain the specific requirements regarding the compliance and reporting removed from the Protocols.

PUCT Staff and the TRE believe that it is imperative that the Operating Guides that are developed contain the necessary compliance and reporting requirements. Therefore, we have created the attached chart, containing the areas that we believe should be addressed in the Operating Guides.

With the understanding that the Operating Guides will be developed prior to the opening of the Nodal market, and that they will address the areas that are described in the chart, the PUCT can agree to the Protocol Revision Request.

PUCT Staff/TRE Proposal

Issue	Metrics	Standards	Reporting
Section 8.1 – QSE and Resource Performance Monitoring	SCPS-1 and SCPS-2 replaced with new metric : Generation Resource Energy Deployment Performance (GREDP). No separate metrics for capacity and frequency control testing.	GREDP results are grouped into three categories, no standard to determine non-compliance.	Most reporting requirements deleted. Performance metrics simply posted to ERCOT secure website. TRE and PUCT must search for violations.
	Need evaluation of whether: 1) GREDP; 2) Current Operating Plan metric; and, 3) Reliability Unit Commitment metric are suitable metrics.	Need a measurable standard to determine compliance.	Need reinstatement of requirement for ERCOT to report non-compliance. Require that ERCOT notify TRE of any revoked entities.
Section 8.2 – ERCOT Performance Monitoring	Protocol provides that ERCOT (and TAC) monitors ERCOT.	For the metrics that are provided, no standard is given to determine compliance.	No requirement that reports regarding ERCOT performance are provided to oversight organizations.
	Need reference to PUC rules for specification of the role of TRE and IMM.	Need measurable standards to determine whether ERCOT is in compliance.	Need a requirement that TRE and/or IMM be copied on all reports related to ERCOT's operations and performance.
Section 8.3 – TSP Performance Monitoring	Metrics that are provided are vague.	For the metrics that are provided, no standard is given to determine compliance.	No provision for reporting the results of TSP performance monitoring.
	TSP performance metrics should be clearly specified.	Need a measurable standard to determine compliance.	Need a requirement for ERCOT to report results of TSP performance monitoring and any instances of non-compliance to TRE.
Section 8.4 – ERCOT Response to Market Non-Performance		Protocol provides only that ERCOT may require corrective action plan or revoke qualifications.	Required reporting of non-performance is deleted from current protocol.
		Need standards to determine when correction or revocation is required.	Market non-performance and any revoked entities should be reported to TRE, IMM as appropriate.
Section 8.5 – Frequency Response Requirements and Monitoring		The requirements in the nodal protocols are the same as in the zonal protocols.	No requirement in protocol that non-performance be reported after analysis by ERCOT.
		Need to verify the measures are valid for nodal operations.	ERCOT should be required to report non-performance to TRE.