



Date: November 9, 2010
To: Board of Directors
From: Brad Jones, Technical Advisory Committee (TAC) Chair
Subject: Revised Day Ahead Market (DAM) Collateral Parameters Process

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: November 16, 2010

Agenda Item No.: 6b

Issue:

Nodal Protocol Section 4.4.10, Credit Requirement for DAM Bids and Offers, requires ERCOT Board approval of the DAM collateral parameters process as well as certain parameter values.

Background/History:

At the October 20, 2010 Wholesale Market Subcommittee (WMS) meeting, the Market Credit Working Group (MCWG) reported that in a joint meeting with the Credit Working Group (CWG), the group reviewed concerns raised by ERCOT staff around Nodal Protocol Section 4.4, Inputs into DAM and Other Trades. Specifically, that ERCOT did not have authority to make changes to DAM credit parameters and that the following parameters are currently set very tight:

1. the 95th percentile of the Real-Time Day Ahead spread used in valuing Energy Only Offers (value is set in Nodal Protocol Section 4.4.10); and
2. the “uth” percentile (currently set at the 95th percentile) used to value Point to Point (PTP) Obligation Bids (value is set in the DAM Collateral Parameter Process document).

In the event these values are set high (due to unusually high prices, etc) the collateral required for these elements would be high for 30 days.

To provide for flexibility, both MCWG and CWG recommended: a) reducing both of the above noted percentiles to the 85th percentile and b) providing ERCOT authorization to make changes, if needed.

WMS discussed a compromise proposal of reducing these percentiles to the 90th percentile. WMS endorsed using the 90th percentile for PTP Obligation Bids and the Real-Time Day Ahead Spread with “e3” and “u” flexibility. The vote passed with three (3) opposing votes from the Municipal (2) and Consumer (1) Market Segments and two (2) abstentions from Municipal and Investor Owned Utility Market Segments.

To effect the above vote, the following changes were proposed:

1. Nodal Protocols – Comments were filed for Nodal Protocol Revision Request (NPRR) 286, DAM Credit – Non-Business Day Processing, to reduce the percentile (from the 95th to the 90th) of the Real Time-Day Ahead spread used in valuing Energy Only Offers (see [NPRR286 Key Documents](#); TAC unanimously voted to recommend approval of NPRR286



as recommended by the Protocol Revision Subcommittee (PRS) in the October 21, 2010 PRS Report. NPRR286 is also submitted to the November 16, 2010 ERCOT Board for consideration.)

2. DAM Collateral Parameters Process document:
 - a. Reduce the percentile (from the 95th to the 90th) used in valuing PTP Obligation Bids;
 - b. Provide that ERCOT can change the “uth” percentile, as needed; and
 - c. Provide that ERCOT can change “e3”, as needed, to moderate the impact on the Real Time-Day Ahead spread:
 - i. “e3” was used to provide flexibility as ERCOT had not confirmed whether the percentile used for the Real Time-Day Ahead spread was a parameter that could be changed readily.

At its November 4, 2010 meeting, TAC reviewed the revised DAM Collateral Parameter Process document and voted to recommend the revised document to the Board. There was one (1) abstention from the Municipal Market Segment.

TAC’s recommended document is attached hereto as Exhibit A. Information regarding NPRR286 is included within the TAC Nodal Protocol Revision Request memo.

ERCOT believes these changes are necessary for go live.

Key Factors Influencing Issue:

Considering WMS and ERCOT Staff input, TAC reviewed the DAM Collateral Parameter Process document and voted to submit the above recommendation to the ERCOT Board.

Alternatives:

1. Approve the TAC recommendation for the DAM Collateral Parameter Process document, as described above or as modified by the ERCOT Board;
2. Reject the TAC recommendation on the DAM Collateral Parameter Process document;
3. Defer decision on the merits of the DAM Collateral Parameter Process document; or
4. Remand the DAM Collateral Parameter Process document to TAC with instructions.

Conclusion/Recommendation:

As more specifically described above, TAC recommends that the ERCOT Board approve the revised DAM Collateral Parameter Process document.



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

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to approve the revised Day Ahead Market (DAM) Collateral Parameter Process document, attached hereto as Exhibit A;

WHEREAS, Nodal Protocol Section, 4.4.10, Credit Requirement for DAM Bids and Offers, requires ERCOT Board approval of the DAM collateral parameters process as well certain parameter values;

THEREFORE be it RESOLVED, that the ERCOT Board hereby approves the revised DAM Collateral Parameter Process document.

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its November 16, 2010 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of November, 2010.

Bill Magness
Corporate Secretary