



Date: April 12, 2011
To: Board of Directors
From: John Dumas, ERCOT Director of Wholesale Markets Operations
Subject: Recommendation on Board-Approved Point-to-Point (PTP) Obligations for Balance of Year Auction

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: April 19, 2011

Agenda Item No.: 16b

Issue:

Whether to approve the PTP Obligations for the balance of year auction as recommended by ERCOT staff.

Background/History:

Pursuant to paragraphs 4 and 5 of Nodal Protocol Section 7.5.1, Nature and Timing, the ERCOT Board of Directors (Board) must approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month.

Paragraphs 4 and 5 of Protocol Section 7.5.1, Nature and Timing, state the following:

- (4) ERCOT shall conduct Congestion Revenue Rights (CRR) Auctions with the frequency, on the dates, and for the terms specified as follows:
 - (a) PTP Options, PTP Obligations, and Flowgate Rights (FGRs) in monthly auctions for one-month terms beginning with the month prior to the Texas Nodal Market Implementation Date.
 - (b) ERCOT shall conduct a monthly CRR Auction during the month preceding the month during which the CRRs being auctioned are effective. ERCOT shall publish a calendar of relevant auction dates each year for the following year's activities.
 - (c) Six monthly CRR Auctions must be completed prior to initiation of the first annual CRR Auction. If six monthly CRR Auctions are completed prior to October 1, then CRR Options and ERCOT Board-approved PTP Obligations will be auctioned for the balance of the current calendar year.
 - (d) After the completion of at least six monthly CRR Auctions ERCOT shall conduct an annual CRR Auction for CRR Options and ERCOT Board-approved PTP Obligations commencing during October for the two-year period that starts on the immediately following January 1.
- (5) ERCOT shall auction the following products:



- (a) In each monthly CRR Auction: one-month strips of PTP Options, PTP Obligations, and FGRs (on any defined flowgates); and
- (b) In each annual CRR Auction:
 - (i) PTP Options in one-month strips, any specified consecutive monthly strips within the same calendar year, and annual strips;
 - (ii) PTP Obligations in one-month strips for one-month terms until the ERCOT Board approves the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points for terms longer than one month; and
 - (iii) FGRs (on any defined flowgates) in one-month strips, any specified consecutive monthly strips within the same calendar year, and annual strips.

In multi-month CRR auctions, PTP Obligations are available only for the first month unless both the source Settlement Point and the sink Settlement Point have been approved by the ERCOT Board as eligible for inclusion of a PTP Obligation for a term of longer than one month. This mitigates the risk of a Market Participant taking a risky, long-term CRR position and defaulting, causing the market to bear the default costs for a lengthy period.

PTP Obligations of terms greater than one month carry with them a significant risk of default. ERCOT can mitigate the risk of default by requiring larger amounts of collateral for each cleared PTP Obligation. However, the additional collateral required is the same for all PTP Obligations regardless of the price volatility of the source or sink. Thus, ERCOT recommends that the ERCOT Board approve only the least volatile Settlement Points, the Hubs and Load Zones.

ERCOT staff respectfully recommends that the ERCOT Board approve the following Settlement Points as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation bid of a term longer than one month.

HB_BUSAVG	HB_WEST	LZ_NORTH
HB_HOUSTON	LZ_AEN	LZ_RAYBN
HB_HUBAVG	LZ_CPS	LZ_SOUTH
HB_NORTH	LZ_HOUSTON	LZ_WEST
HB_SOUTH	LZ_LCRA	

Key Factors Influencing Issue:

- Paragraphs 4 and 5 of Nodal Protocol Section 7.5.1, Nature and Timing, require Board approval of the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month.



- PTP Obligations of terms greater than one month carry with them a significant risk of default.
- ERCOT can mitigate the risk of default by requiring larger amounts of collateral for each cleared PTP Obligation.

Alternatives:

1. Approve the use of ERCOT staff-recommended Settlement Points as eligible sources and sinks for long term PTP Obligations as described above or as modified by the Board;
2. Reject the ERCOT staff recommendation on Settlement Points as eligible sources and sinks for long term PTP Obligations and instruct ERCOT staff to hold the balance of year auction for PTP Options with PTP Obligations available only for the first month;
3. Defer decision on the Settlement Points as eligible sources and sinks for long term PTP Obligations and instruct ERCOT to delay the balance of year auction until such decision is made.

Conclusion/Recommendation:

As more specifically described above, ERCOT staff respectfully recommends that the Board approve the recommended Settlement Points as eligible sources and sinks for PTP Obligations being offered for terms of longer than one month.



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

WHEREAS, paragraphs 4 and 5 of Nodal Protocol Section 7.5.1, Nature and Timing, authorize the ERCOT Board of Directors (Board) to approve the offering of Point-to-Point (PTP) Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month;

WHEREAS, the Board deems it desirable and in market's best interest to approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month;

THEREFORE BE IT RESOLVED, that the Board hereby authorizes ERCOT staff to offer PTP Obligations for terms longer than one month for the following Settlement Points:

HB_BUSAVG	HB_WEST	LZ_NORTH
HB_HOUSTON	LZ_AEN	LZ_RAYBN
HB_HUBAVG	LZ_CPS	LZ_SOUTH
HB_NORTH	LZ_HOUSTON	LZ_WEST
HB_SOUTH	LZ_LCRA	

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its April 19, 2011 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of April, 2011.

Bill Magness
Corporate Secretary