



Point-to-Point Obligations for Balance of Year Auction

John Dumas

Director of Wholesale Market Operations

Board of Directors Meeting

April 19, 2011

Requirement - PTP Obligations for Terms Greater Than One Month

- **Per the Protocols, the Board needs to approve a list of settlement points that can be sources and sinks for Point-to-Point (PTP) Obligations with terms longer than one month. (7.5.1).**

Risks around longer term PTP Obligations

- **Market Participants may not be able to adequately hedge their congestion risk in the balance of year auction if longer term PTP Obligations are not offered (in some configuration)**
- **Auction – while the Congestion Revenue Rights (CRR) Auction credit mechanism should collateralize adequately for most scenarios, it would likely not adequately collateralize for an entity taking a number of extreme out of money positions**
- **Within the current Protocols and system implementation the CRR Auction uses one global credit adder for all CRRs regardless of volatility of its source and sink**
- **Tenor – because of the length of term (balance of year, one year, two years), out of money instruments have the potential to create losses over an extended period of time. This situation may arise from**
 - **extreme bids in the auction**
 - **long term changes in system configurations not anticipated at the time of the auction**
- **The Nodal market is still fairly new and changes continue to be made (e.g. “dead bus”)**

Constraints for Balance of Year Auction

- **CRR systems – there is no time for system changes prior to the balance of year auction; there is no time for significant system changes prior to the 2012 auction**
- **The CRR system will process transactions where both the source and sink are authorized settlement points**
 - **Authorization is by settlement point, not by path**

Alternatives Considered for PTP Obligations in Balance of Year Auction

- 1. Authorize longer term PTP Obligations only for Hubs and Zones until CRR Auction credit requirements can be customized for the risk**
- 2. Authorize no longer term PTP Obligations (offer only prompt month) until CRR Auction credit requirements can be customized for the risk**
- 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.**

ERCOT Staff Recommendation

- **Given the risks and constraints, ERCOT staff respectfully recommends Alternative 1 above**

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	