



August 18, 2011

Chairman Donna L. Nelson  
Public Utility Commission of Texas  
1701 N. Congress Avenue  
Austin, TX 78711

Dear Chairman Nelson:

I received your letter dated August 12, 2011, and want to provide an update on steps ERCOT is taking to mitigate the stresses on the ERCOT System during this period of extreme heat and drought. As noted in your letter, the ERCOT System faces a number of challenges that are unusual, even for a Texas summer. These include:

- The persistence of temperatures exceeding 100°F across the ERCOT region, and the pressure that the unrelenting, statewide heat has placed on generation units;
- The persistence of what the State Climatologist has now declared the worst one-year drought in the history of Texas, which accentuates the heat and complicates power production due to cooling water issues;
- Difficulties with coal transportation due to railroad delivery delays resulting from the flooding in the Midwestern states, which results in reductions in available fuel for certain coal-fired units.
- The fact that there are more Texans using more electricity than ever before in ERCOT's history, and economic and population growth continues to fuel greater energy demand.

The interplay of these conditions has made it hard for standard summer operating procedures to be effective this year. For example, the persistence of extreme heat has increased weekend loads (and resulted in a new all-time weekend peak), making it less feasible for generation units to be taken off-line over weekend days for maintenance. When generation units are required to run hard without normal outages for maintenance, it increases the likelihood of forced outages or de-ratings that reduce available capacity. Moreover, without rainfall in the near future, ERCOT anticipates higher outage rates associated with cooling water issues.

The extreme conditions have produced record peak demand in ERCOT (with new records set over three consecutive days at the beginning of August), and have resulted in ERCOT utilizing all the tools at its disposal to keep uninterrupted power flowing. As you are aware, ERCOT already utilized Load Resources (known in the zonal market as "loads acting as resources") and deployed Emergency Interruptible Load Service ("EILS"). Our ability to use these tools for the remainder of the summer is very limited. In addition, Texans have been

responsive to requests for conservation during the peak periods of the hottest days, and ERCOT expects to continue relying on that cooperation as the heat continues in August and September.

ERCOT constantly investigates ways that it can effectively address the challenges facing reliability in the short-term, while maintaining the market rules and economic signals necessary to provide incentives for increasing generation capacity in the long-term. In the last few weeks, ERCOT staff worked with market participants and Commission staff to examine options for increasing availability of generation for the remainder of the peak demand season. ERCOT inquired whether units on "mothball" status would be able to return to service in order to provide an additional buffer against the need for rotating outages. As we have discussed with you and with Commission staff, there were a limited number of generation units that could be brought back to service in time to provide a last resort back-up if other generation resources in the market could not serve the load on a particular day.

ERCOT worked with the owners of four available units to develop a plan to return them to service as soon as possible, for a temporary period (ending in October 2011), using the contractual pricing methodology used for Reliability Must Run ("RMR") units under the ERCOT Protocols. The limited-term contracts ERCOT executed with the unit owners follow the Protocols' RMR contract terms, but the contracts are not entered into for the purposes of a standard RMR contract (which relates to transmission limitations). Rather, ERCOT negotiated these agreements to provide a tool to prevent imminent emergency conditions caused by the confluence of events described above and in your letter. The arrangements will make approximately 400 megawatts of additional capacity available for emergency conditions. Consistent with transparency standards applicable to RMR and other reliability-related contracts ERCOT enters into, the contracts will be made available for public inspection.

To minimize the potential impact of this temporary reliability tool on other market participants, the four units will be called on only when necessary to avoid emergencies. Specifically, the units will not be offered into the Day Ahead Market. Rather, ERCOT Operations will determine whether to use these resources as part of the Hourly Reliability Unit Commitment ("HRUC") process, based on system conditions and the ability to meet demand. In the event that these Resources are dispatched and on-line, ERCOT will not submit energy offer curves to Security Constrained Economic Dispatch ("SCED") for them. Since no offer curve is submitted to SCED, the system will trigger SCED to build a proxy offer for the unit at the price cap. The high default offer should place the units at the bottom of the economic dispatch list, which should result in these units being the last megawatts dispatched -- so as not to displace units that are on-line and bidding into the market.

ERCOT's use of this reliability tool is consistent with its mandate under the Public Utility Regulatory Act ("PURA") to "ensure the reliability and adequacy of the regional electrical network" (PURA § 39.151(a)(2)). In addition, ERCOT's actions in this regard are consistent with its duties as Control Area Operator ("CAO") under the Protocols. As CAO, the Protocols authorize ERCOT to take specific actions "for the limited purpose of securely operating the ERCOT Transmission Grid," and, more generally, to take "additional actions required to prevent an imminent Emergency Condition or to restore the ERCOT Transmission Grid to a secure state in the event of an ERCOT Transmission Grid Emergency Condition." As the contracts are based

on the RMR principles in the Protocols, but do not fall directly into all of the RMR definitions, the contracts fulfill ERCOT's duties under Protocols subsection 6.5.1.1(e), as well as under PURA § 39.151(a)(2).

ERCOT will continue to work with market participants, the Commission, and other stakeholders to ensure the dramatic events of this summer do not result in disruptive electricity shortages. We appreciate the Commission's support of these efforts, and look forward to additional discussions with you and Commissioner Anderson on these critical issues.

Sincerely,

A handwritten signature in blue ink that reads "Trip Doggett". The signature is written in a cursive, slightly slanted style.

Trip Doggett

cc: Commissioner Kenneth W. Anderson, Jr.  
Mr. Brian Lloyd