



**Date:** September 13, 2011  
**To:** Board of Directors  
**From:** Mark Ruane, ERCOT Vice President of Credit and Enterprise Risk Management  
**Subject:** ERCOT Recommendation on Board-Approved Point-to-Point (PTP) Obligations for Annual Congestion Revenue Rights (CRR) Auction

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** September 20, 2011

**Agenda Item No.:** 10

**Issue:**

Whether to approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points for terms of longer than one month in conjunction with the annual CRR Auction as recommended by ERCOT staff.

**Background/History:**

Pursuant to paragraphs 4 and 5 of 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 CRR Auctions with the frequency, on the dates, and for the terms specified as follows:
  - (a) Point-to-Point (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.

At its April 19, 2011 meeting, the Board approved the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points for terms of longer than one month in conjunction with the Balance of Year CRR Auction. This approval allowed the auction of these instruments for a six month period from July to December 2011.

The upcoming annual CRR Auction will include PTP Obligations for terms of up to one year for calendar years 2012 and 2013.

Collateral is required for all PTP Obligations both (a) within the auction process and (b) for all open positions held post auction. Collateral requirements for all post auction open positions are updated daily and are based on a combination of the Auction Clearing Price and recent historical pricing. This methodology ensures that collateral requirements are responsive to recent path specific activity. ERCOT has reviewed its collateral requirements for CRRs held post-auction for all open positions and believes that the collateralization methodology used reasonably mitigates the credit risk. In addition, while collateral requirements within the auction process are not customized by path, ERCOT believes that this risk is reasonably mitigated by the combination of (a) the credit requirements within the auction and (b) the final review that ERCOT will [authorized in the recently approved Nodal Protocol Revision Request (NPRR) 392] conduct before the auction results are posted to ensure that post-auction collateral will be sufficient.

This approach has been discussed at the NPRR 357 Workshop on July 6, 2011 as well as at the Congestion Management Working Group (CMWG) meeting on August 9, 2011. CMWG also indicated ERCOT staff's recommendation through an update to the Wholesale Market Subcommittee (WMS) on August 10, 2011.

ERCOT staff respectfully recommends that the ERCOT Board approve all Settlement Points – including all Resource Nodes, all Load Zones, and all Hubs – as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation with a term of up to one year



for the next two calendar years.

**Key Factors Influencing Issue:**

- Paragraphs 4 and 5 of 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.
- The collateralization methodology ERCOT uses reasonably mitigates the credit risk.

**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; or
2. Reject the ERCOT staff recommendation on Settlement Points as eligible sources and sinks for long term PTP Obligations and instruct ERCOT staff to either (a) defer the annual CRR Auction until Board specified actions are taken or (b) include PTP Obligations for no more than the six month term approved in the Balance of Year CRR Auction (e.g. January 2012-June 2012).

**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 in conjunction with the annual Congestion Revenue Rights (CRR) Auction with a term of up to one year for the next two calendar years (that is, calendar years 2012 and 2013).



**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, authorizes 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, ERCOT staff has recommended that the ERCOT Board approve all Settlement Points – including all Resource Nodes, all Load Zones, and all Hubs – as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation with a term of up to one year for the next two calendar years;

WHEREAS, the Board deems it desirable and in the market’s best interest to approve all Settlement Points – including all Resource Nodes, all Load Zones, and all Hubs – as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation with a term of up to one year for the next two calendar years (that is, calendar years 2012 and 2013);

THEREFORE BE IT RESOLVED, that the Board hereby approves approve all Settlement Points – including all Resource Nodes, all Load Zones, and all Hubs – as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation with a term of up to one year for calendar years 2012 and 2013 and hereby authorizes ERCOT staff to offer PTP Obligations for the calendar years 2012 and 2013 for all Settlement Points, including all Resource Nodes, all Load Zones, and all Hubs.

**CORPORATE SECRETARY’S CERTIFICATE**

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its September 20, 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 September, 2011.

\_\_\_\_\_  
Bill Magness  
Corporate Secretary