



Date: February 14, 2012
To: Board of Directors
From: John Dumas, Director of Wholesale Market Operations
Subject: 2012 Ancillary Services Methodology Recommendation

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 21, 2012

Agenda Item No.: 09

Issue:

Whether the Board should approve the proposed changes to the methodology for determining the minimum Ancillary Service requirements as presented herein to be effective April 1, 2012, and reaffirm the unchanged sections of the document until the next revision or as otherwise required.

Background/History:

Ancillary Services are necessary to maintain the reliability of the ERCOT system. The ERCOT Protocols define these Ancillary Services and charge ERCOT with determining a methodology for the minimum levels of Ancillary Services required. ERCOT Staff developed proposed changes to the methodology previously approved by the ERCOT Board on October 18, 2011.

The revised methodology document, *2012 ERCOT Methodologies for Determining Ancillary Service Requirements*, is attached hereto as Attachment A. On February 2, 2011, the Technical Advisory Committee (TAC) unanimously endorsed the 2012 Ancillary Service methodology as recommended by ERCOT.

During the last iteration of revisions to the methodology, which took place during September and October of 2011, the TAC had requested that the methodology again be reviewed no later than March 2012. The timing of this requested review stemmed from the ongoing discussion in the stakeholder meetings regarding the effects of reliability deployment on energy prices in the ERCOT Market.

As a result of discussions between the ERCOT staff, ERCOT stakeholders, the Independent Market Monitor (IMM), and Public Utility Commission of Texas (PUCT) staff, a request was made to ERCOT staff by the Reliability Deployment Task Force (RDTF) that the methodology document be updated to transfer 500 megawatts (MW) of Non-spinning Reserve Service (NSRS) to Responsive Reserve Service (RRS). The intent of this transfer is to help alleviate the potentially negative effects of reliability deployments on energy prices by having a larger amount of the total reserves be provided by online Resources.

The changes from the 2011-2012 Methodology for Determining Ancillary Service Requirements document are intended to transfer 500 MW from the minimum NSRS requirement to the minimum RRS requirement. The changes are shown in red-line in Attachment A, and can be summarized as follows:



- The minimum RRS requirement is changed from 2300 MW to 2800 MW;
- Use of the forecasted Reserve Discount Factor (RDF) to determine increases in the minimum RRS requirement from 2300 MW is removed;
- A calculation within the minimum NSRS requirement analysis is changed such that both the average Regulation Up Service requirement and 500 MW is subtracted from the 95th percentile of the net-load forecast error. The calculation in the current methodology only subtracts the average Regulation Up Service requirement;
- The cap for the minimum NSRS requirement is changed from 2000 MW to 1500 MW; and
- The floor for the minimum NSRS requirement during on-peak hours is changed from being equal to the single largest unit in ERCOT to being equal to the single largest unit minus 500 MW.

ERCOT staff respectfully recommends that the Board approve the proposed revised requirements to be effective on April 1, 2012 and reaffirm the unchanged sections of the document until the next revision.

Key Factors Influencing Issue:

Ancillary Services are necessary to ensure that there are sufficient resources to serve system load and maintain system frequency in the ERCOT system. Determining the minimum amount of services required to do this is based on operating experience, analysis and engineering judgment. The proposed methodology reflects ERCOT's best judgment on minimum Ancillary Services needed for the ERCOT single Balancing Authority.

Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board approve the proposed changes to the methodology for determining Ancillary Service Requirements presented herein to be effective April 1, 2012, as endorsed by the TAC, and reaffirm the unchanged sections of the document until the next revision or as otherwise required.



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 comply with the requirements of the ERCOT Protocols that charge ERCOT, at least on an annual basis, to determine a methodology for the minimum levels of Ancillary Services required; and

WHEREAS, the ERCOT Board further deems it desirable and in the best interest of ERCOT to approve the recommendations of ERCOT staff to change the methodology of determining Ancillary Service Requirements as reflected in the *2012 ERCOT Methodologies for Determining Ancillary Service Requirements*, which is attached hereto as Attachment A, to be effective April 1, 2012, as endorsed by the Technical Advisory Committee (TAC), and to reaffirm the unchanged sections of such document until the next revision or as otherwise required.

NOW, THEREFORE, BE IT RESOLVED, that the *2012 ERCOT Methodologies for Determining Ancillary Service Requirements*, which is attached hereto as Attachment A, is hereby authorized and approved in each and every respect to be accepted by ERCOT as the methodology for determining Ancillary Service, to be effective April 1, 2012, and the unchanged sections of such Methodologies are reaffirmed until the next revision or as otherwise required.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 21, 2012 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2012.

Vickie G. Leady
Assistant Corporate Secretary