

**NPRR 463 CRR Auction Structure  
Enhancements**  
**Wholesale Market Subcommittee**

**Wednesday, May 9, 2012**



# Long Term Auction Sequence delivers benefits due to increase auctioning

## Long-Term Auction Sequence Structure

–Benefits of proposed auction structure–

- **Increased Liquidity**
  - Each month is auctioned five times (including monthly auction)
  - Increased opportunity to acquire new hedges and reconfigure existing holdings
- **More frequent price discovery**
  - Sets the stage for more efficient CRR credit methodology
- **Reductions in credit posting peaks, i.e. only six months locked at a time**



# Long Term Auction Sequence delivers benefits due to increase auctioning

## Long-Term Auction Sequence Structure –Overview of NPPR 463–

- **Two “Long-Term Auction Sequences” held in the spring and fall replace today’s annual CRR Auction**

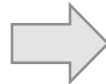
- Each Long-Term Auction Sequence contains four successive six-month auctions, i.e. 24 months
  - Each sequence rolls-in a new six-months and rolls-out the oldest six-months

- **Initially, each sequence is approximately 12 weeks in duration.**

- Goal is to reduce duration as operational experience and/or system improvements are acquired.

- **CRR products are purchased in single month or consecutive month strips**

- Benefits of monthly shaping retained
- Simplifies baselading of 2013 open positions



Preconditions: 2013 Allocations are already allocated and priced as of Nov 2011

Long Term Auction Sequence 1: Sept 2012

Fully allocate 2014 PCRRs as currently scheduled

Auction 2013.1.1 (Jan-Jun 2013)

Auction 2013.1.2 (Jul-Dec 2013)

Auction 2014.1.3 (Jan-Jun 2014) (First Offering) Jan-Jun 2014 PCRR's priced here

Auction 2014.1.4 (Jul-Dec 2014) (First Offering) Jul-Dec 2014 PCRR's priced here

Long Term Auction Sequence 2: May 2013

Fully allocate 2015 PCRRs

Auction 2013.2.1 (Jul-Dec 2013)

Auction 2014.2.2 (Jan-Jun 2014)

Auction 2014.2.3 (Jul-Dec 2014)

Auction 2015.2.4 (Jan-Jun 2015) (First Offering) Jan-Jun 2015 allocations priced here

Long Term Auction Sequence 3: Sept 2013

No allocations

Auction 2014.3.1 (Jan-Jun 2014)

Auction 2014.3.2 (Jul-Dec 2014)

Auction 2015.3.3 (Jan-Jun 2015)

Auction 2015.3.4 (Jul-Dec 2015) (First Offering) Jul-Dec 2015 allocations are priced here

Long Term Auction Sequence 4: May 2014

Fully allocate 2016 PCRRs

Auction 2014.4.1 (Jul-Dec 2014)

Auction 2015.4.2 (Jan-Jun 2015)

Auction 2015.4.3 (Jul-Dec 2015)

Auction 2016.4.4 (Jan-Jun 2016) (First Offering) Jan-Jun 2016 allocations are priced here

Long Term Auction Sequence 5: Sept 2014

No allocations

Auction 2015.5.1 (Jan-Jun 2015)

Auction 2015.5.2 (Jul-Dec 2015)

Auction 2016.5.3 (Jan-Jun 2016)

Auction 2016.5.4 (Jul-Dec 2016) (First Offering) Jul-Dec 2016 allocations are priced here



## Other items considered at the CRR Subgroup

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### Long-Term Auction Sequence Structure

– Detailed considerations for NPRR463 –

- **200,000 transaction limit applies to each six-month auction**
  - Less likely to reach bid limit due to reduced auction period, i.e. six months versus a year
  - Recent ERCOT system upgrades may lead to an increase in the limit
- **Each auction within a Long-Term Auction Sequence is optimized across six months separated by time-of-use**
  - Credit submitted for each time-of-use
- **The auction calendar must be approved by the TAC well in advance of each sequence**
  - May 1 for fall sequence and Sept. 1 for spring sequence or 120 days prior to planned closure of bid window. Exception for sequences that auction 2013.
  - Once approved the calendar may not be accelerated
  - Between each auction ERCOT would post results and credit is unlocked after invoices are released (same as today).
    - If delay occurs then subsequent auctions would shift back such that credit windows do not overlap.



# Proposed capacity release schedule is a close equivalent to today's

## Capacity Release – DC Energy proposal–

- **Proposed releases: 60%, 45%, 30%, 15%**
- **Continue with Monthly Auctions as is (each prompt month at 90%)**

### Long Term Auction Sequence 1: Sept 2012

Fully allocate 2014 PCRRs as currently scheduled

Auction 2013.1.1 (Jan-Jun 2013) 60%

Auction 2013.1.2 (Jul-Dec 2013) 45%

Auction 2014.1.3 (Jan-Jun 2014) 30% (First Offering) Jan-Jun 2014 PCRR's are priced here

Auction 2014.1.4 (Jul-Dec 2014) 15% (First Offering) Jul-Dec 2014 PCRR's are priced here

### Long Term Auction Sequence 2: May 2013

Fully allocate 2015 PCRRs

Auction 2013.2.1 (Jul-Dec 2013) 60%

Auction 2014.2.2 (Jan-Jun 2014) 45%

Auction 2014.2.3 (Jul-Dec 2014) 30%

Auction 2015.2.4 (Jan-Jun 2015) 15% (First Offering) Jan-Jun 2015 allocations are priced here

### Long Term Auction Sequence 3: Sept 2013

No allocations

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Auction 2014.3.2 (Jul-Dec 2014) 45%

Auction 2015.3.3 (Jan-Jun 2015) 30%

Auction 2015.3.4 (Jul-Dec 2015) 15% (First Offering) Jul-Dec 2015 allocations are priced here

### Long Term Auction Sequence 4: May 2014

Fully allocate 2016 PCRRs

Auction 2014.4.1 (Jul-Dec 2014) 60%

Auction 2015.4.2 (Jan-Jun 2015) 45%

Auction 2015.4.3 (Jul-Dec 2015) 30%

Auction 2016.4.4 (Jan-Jun 2016) 15% (First Offering) Jan-Jun 2016 allocations are priced here

### Long Term Auction Sequence 5: Sept 2014

No allocations

Auction 2015.5.1 (Jan-Jun 2015) 60%

Auction 2015.5.2 (Jul-Dec 2015) 45%

Auction 2016.5.3 (Jan-Jun 2016) 30%

Auction 2016.5.4 (Jul-Dec 2016) 15% (First Offering) Jul-Dec 2016 allocations are priced here



# Baseloading for CRRs needs to be slightly modified to accommodate increased auctioning

## Baseloading Issue – DC Energy Proposal–

- **Diluting CRR baseloading no longer works**
  - Current practice of prorating previously-sold CRRs by the capacity percentage of the current auction will push awarded volumes far faster than expected
  - Solution: Do not prorate existing CRR inventory when baseloading. Continue to prorate PCRRs as those are allocated 100% upfront.
- **PCRRs schedule is slightly adjusted**
  - Just as today, nominate PCRRs just before the first time those months are sold (before the first CRR Long-Term Auction, about 2 years out)
    - PCRR nomination would occur yearly

### Baseloading Example

– No PCRRs involved, CRRAH bids for all MW –

Auction	Capacity	Sold Previously	Baseloading	Available	Now Consumed
First Offering	15	0.0	0.0	0	15.0
Second Offering	30	15.0	4.5	25.5	40.5
Third Offering	45	40.5	18.2	26.8	67.3
Fourth Offering	60	67.3	40.4	19.6	86.9
Fifth Offering	90	86.9	78.2	11.8	98.7

*Well above the expected 60%*

### PCRR Schedule

– Example Schedule –

#### May 2013

##### **Fully allocate 2015 PCRRs**

- Auction 2013.2.1 (Jul-Dec 2013) 60%
- Auction 2014.2.2 (Jan-Jun 2014) 45%
- Auction 2014.2.3 (Jul-Dec 2014) 30%
- Auction 2015.2.4 (Jan-Jun 2015) 15%

#### Sept 2013

##### **No allocations**

- Auction 2014.3.1 (Jan-Jun 2014) 60%
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#### May 2014

##### **Fully allocate 2016 PCRRs**

- Auction 2014.4.1 (Jul-Dec 2014) 60%
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- Auction 2016.4.4 (Jan-Jun 2016) 15%



# Seeking approval of NPRR 463 on expedited timeline

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## **NPRR 463 Procedural Schedule**

– Seeking approval prior to when activities for annual CRR Auction begin–

- **Requesting WMS endorsement of NPRR 463 today May, 9<sup>th</sup>**
- **Requested urgent status for NPRR at the Protocol Revision Subcommittee on May 17<sup>th</sup>**
- **Seeking TAC and Board of Directors approval in June**
  - Consider impact analysis at the June 7th TAC meeting
    - Proposed auction structure was designed to be absorbed by existing ERCOT staff and systems.
  - The Board of Directors do not meet in July