



**Date:** May 8, 2012  
**To:** Board of Directors  
**From:** Chad V. Seely, Assistant General Counsel  
**Subject:** Reconsideration of Board's Approval of Price Correction for DC\_N Settlement Point (Operating Day November 24, 2011) on February 21, 2012, in Light of Subsequent Public Utility Commission of Texas Order in Docket No. 39433

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** May 15, 2012

**Agenda Item No.:** 08

**Issue:**

Whether the ERCOT Board of Directors (Board) should reconsider its February 21, 2012 approval of a price correction for DC\_N Settlement Point (Operating Day November 24, 2011) in light of the Public Utility Commission of Texas (Commission) Order in Docket No. 39433.

**Background/History:**

On February 21, 2012, the Board approved a price correction, as recommended by ERCOT Staff, on the Locational Marginal Prices (LMPs) and Settlement Point Prices assigned to de-energized Settlement Point DC\_N (Electric Bus DCTM\_L\_A) in the Real-Time Market (RTM) for Settlement Intervals 74 (18:15:11) to 95 (23:25:10) for Operating Day November 24, 2011 (February 2012 Price Correction). In accordance with paragraph (4) of Protocol Section 6.3, the Board found that the Real-Time LMPs and Settlement Point Prices were significantly affected by a software and data error.

Subsequent to the Board's decision with regard to the February 2012 Price Correction, the Commission issued its final Order in Docket No. 39433, *Appeal and Complaint of Longhorn Energy LP and West Oaks Energy LLC Concerning ERCOT Decision to Conduct Market Resettlement*. Docket No. 39433 also involved a price correction matter approved by the Board (in April 2011), as a result of a "data error" under the ERCOT Protocols. The situation in Docket No. 39433 involved de-energized Settlement Points for Operating Days December 1, 2010, through February 1, 2011 (April 2011 Price Correction). The Commission's March 7, 2012 Final Order included the following findings of fact:

1. The use of a proxy for Locational Marginal Price when Electrical Buses were de-energized was a model design flaw, not a data error. (Finding of Fact No. 65)
2. The software operated exactly as it was designed but because of the design flaw in the model, an unintended outcome resulted. (Finding of Fact No. 66)
3. The ERCOT Nodal Protocol Sections 4.5.3 and 6.3 allow the prices to be corrected only if the Locational Marginal Prices or the Settlement Point Prices are significantly affected by a software or data error. (Finding of Fact No. 67)
4. The term *data error* is not defined in the Protocols. (Finding of Fact No. 68)



The Commission ultimately concluded that the Day-Ahead and Real-Time LMPs and Settlement Point Prices for the Operating Days at issue in Docket No. 39433 were not significantly affected by a software or data error. The Order reversed the Board's April 2011 decision to authorize a price correction for the affected Operating Days. No party appealed the Commission's decision in Docket No. 39433.

Additionally, subsequent to the Board's decision on the February 2012 Price Correction and the Commission's Order in Docket No. 39433, a Market Participant requested Alternative Dispute Resolution (ADR) under Protocol Section 20. The ADR was timely submitted before 35-day appeal deadline and is based upon the Board's approval on the February 2012 Price Correction. In light of the Commission's Order in Docket No. 39433 related to the April 2011 Price Correction, ERCOT Legal suspended implementation of the February 2012 Price Correction (that is, the price correction for Operating Day November 24, 2011) in order to allow the Board adequate time to discuss and possibly reconsider its prior approval.

As previously indicated to the Board in February 2012, ERCOT staff concluded that the Real-Time LMPs and Settlement Point Prices for Operating Day November 24, 2011 were significantly affected by a software and data error. After evaluation of the Commission's order in Docket No. 39433, which involves facts substantially similar to those presented in the February 2012 Price Correction, ERCOT Legal recommends that the Board reconsider its February 21, 2012 decision to authorize correction of the Real-Time LMPs and Settlement Point Prices associated with Settlement Point DC\_N for Operating Day November 24, 2011. In addition, ERCOT Legal notes that stakeholders and ERCOT staff have initiated efforts to review price correction standards in the ERCOT Protocols that will be applicable to future cases.

**Key Factors Influencing Issue:**

- The facts surrounding the Board's decision on the February 2012 Price Correction to correct the prices at the DC Tie North Settlement Point for Operating Day November 24, 2011 and the facts in Docket No. 39433 related to the April 2011 Price Correction are not materially different – both outcomes were based on a finding of data input error.
- The Commission has determined in Docket No. 39433 that the pricing outcome that occurred as a result of de-energized Electrical Buses was not a data error, but a design flaw that does not justify a price correction under the standards set forth in the ERCOT Protocols.
- With a timely submitted ADR already pending on the Board's February 21, 2012 decision, ERCOT Legal believes the February 2012 Price Correction would be appealed to the Commission, and that there is not a high likelihood of success for ERCOT on such an appeal.
- ERCOT and the stakeholders have initiated efforts to review the price correction standard – “significantly affected by a software or data error” – in the ERCOT Protocols to address any potential ambiguities. On May 11, 2012, a joint Communications and Settlements Working Group (CSWG) and Resource Cost Working Group (RCWG) stakeholder meeting will be held to discuss the standard.



**Alternatives:**

1. Accept ERCOT Legal's recommendation, that is, to reconsider the Board's approval of a price correction for DC\_N Settlement Point for Operating Day November 24, 2011, to confirm that the Real-Time LMPs and Settlement Points Prices for that Operating Day are deemed final as reflected at 1600 of the next Business Day.
2. Decline to reconsider the Board's approval of a price correction for DC\_N Settlement Point for Operating Day November 24, 2011.

**Conclusion/Recommendation:**

Based upon the above noted key factors, ERCOT Legal recommends that the Board reconsider its February 21, 2012 approval of a price correction for DC\_N Settlement Point for Operating Day November 24, 2011, and to confirm that the Real-Time LMPs and Settlement Points Prices for that Operating Day are deemed final as reflected at 1600 of the next Business Day.



**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 and the market to reconsider its February 21, 2012 approval of a price correction for DC\_N Settlement Point for Operating Day November 24, 2011;

WHEREAS, paragraph 4 of Nodal Protocol Section 6.3, Adjustment Period and Real-Time Operations Timeline, indicates that all Real-Time LMPs, SASM MCPCs, and Real-Time Settlement Point Prices are final at 1600 of the next Business Day after the Operating Day; and

THEREFORE, BE IT RESOLVED, that the Board confirms that the Real-Time LMPs and Settlement Points Prices for Operating Day November 24, 2011 are deemed final as reflected at 1600 of the next Business Day in accordance with paragraph (4) of Nodal Protocol Section 6.3.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its May 15, 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 May, 2012.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary