

**NPRR 463 CRR Auction Structure
Enhancements**
Congestion Management Working Group

Tuesday, May 8, 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**

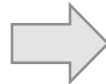
- Each Long-Term Auction Sequence contains four successive six-month auctions, i.e. 24 months
 - Each sequence rolls-in a new six-months and rolls-out the oldest six-months

- **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 are allocated but priced here

Auction 2014.1.4 (Jul-Dec 2014) (First Offering) Jul-Dec 2014 PCRR's are allocated but 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 finally get 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 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 2015 allocations finally get priced here



Other items considered at the CRR Subgroup

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 after invoices are released the credit is unlocked (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 allocated but priced here

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

Long Term Auction Sequence 2: May 2013

Fully allocate 2015 PCRRs

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Auction 2014.2.3 (Jul-Dec 2014) 30%

Auction 2015.2.4 (Jan-Jun 2015) 15% (First Offering) Jan-Jun 2015 allocations priced here; Jul-Dec 2015 allocations not priced yet

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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
Froth 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

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- Auction 2014.2.2 (Jan-Jun 2014) 45%
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- Auction 2015.2.4 (Jan-Jun 2015) 15%

Sept 2013

No allocations

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Seeking approval of NPRR 463 on expedited timeline

NPRR 463 Procedural Schedule

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

- **Requesting WMS endorsement of NPRR 463 on May, 9th**
- **Requested urgent status for NPRR at the Protocol Revision Subcommittee on May 17th**
- **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