

ERCOT publishes this draft Governing Document for the purposes of advance review and comment. The project described herein would only be implemented upon adoption of the amendments to P.U.C. Substantive Rule 25.361(k) proposed in Project 40150, *PUC Rulemaking Proceeding Concerning an ERCOT Pilot Project*.

Governing Document for 30-Minute Emergency Response Service Pilot Project

1. INTRODUCTION AND SUMMARY

As authorized by P.U.C. Substantive Rule 25.361(k) and by the ERCOT Board of Directors ("Board"), ERCOT hereby establishes a pilot project to test procurement and deployment of Emergency Response Service ("ERS") with a thirty-minute ramp period ("30-Minute ERS"). This Governing Document for 30-Minute Emergency Response Service Pilot Project ("Governing Document") is intended to govern the administration of the 30-Minute ERS pilot project. The pilot project will adhere to the rules and procedures governing conventional ERS ("10-Minute ERS") except where noted herein. Substantial differences between 30-Minute ERS and 10-Minute ERS include the following:

1. Participants in the 30-Minute ERS pilot project (hereinafter, "Pilot Resources") will have thirty minutes to respond to a Dispatch Instruction, instead of the ten minutes required of 10-Minute ERS Resources;
2. Only Loads—not generators—will be permitted to participate in 30-Minute ERS;
3. ERCOT may deploy 30-Minute ERS as early as Energy Emergency Alert ("EEA") Level 1;
4. 30-Minute ERS will be procured using a clearing price mechanism instead of as-bid pricing used with 10-Minute ERS;
5. Pilot Resources will be subject to a minimum of one and a maximum of four deployments (whether for purposes of testing or actual deployment) per Contract Period;
6. Pilot Resources will be subject to a maximum of eight cumulative hours of deployment during the period of obligation, and will not be obligated to remain deployed beyond eight hours, even if ERCOT does not issue a recall instruction;
7. Pilot Resources may not opt for automatic renewal of obligations for additional Contract Periods;
8. QSEs representing Pilot Resources will be assessed a disproportionate reduction in payment, rather than be suspended, for failure of availability or performance standards.

As described in more detail below, ERCOT intends to procure 30-Minute ERS for at least two separate periods of obligation. The first procurement will occur in June/July 2012 for commitment during the period of July 15, 2012 to September 30, 2012, coinciding with the last part of the June to September 2012 Standard Contract Term for 10-Minute ERS Resources. A second procurement will occur in

August/September 2012 for a period coinciding with the October 2012 to January 2013 ERS Standard Contract Term.

After the July to September 2012 Contract Period, ERCOT will conduct an initial assessment of the performance of the program and submit a report on the pilot to the ERCOT Board. If ERCOT Staff determines that it has sufficient data to recommend the permanent integration of the 30-Minute ERS product, ERCOT Staff will request that the Board authorize Staff to propose a Board Priority Nodal Protocol Revision Request (NPRR) with the appropriate revisions. If the Board is prepared to issue such an approval, ERCOT would endeavor to have the 30-Minute ERS product introduced before procurement begins for the February to May 2013 Standard Contract Term. However, ERCOT may need to extend the pilot for a third Contract Period (February to May 2013), with the goal of implementing the product for the June to September 2013 ERS Standard Contract Term.

2. PURPOSE

The purpose of this pilot project is to:

- Assess the operational benefits and challenges of deploying an ERS product with a thirty-minute ramp period;
- Study the optimal means of deploying 30-Minute ERS in an EEA;
- Gather data to analyze the execution and benefits of a clearing price mechanism;
- Gather data to assist ERCOT in determining the appropriate price to pay for 30-Minute ERS;
- Gather data to compare costs and benefits relative to 10-Minute ERS; and
- Determine overall market interest in 30-Minute ERS before making appropriate ERCOT rule changes.

3. ELIGIBILITY

Any Load that meets the qualifications to participate in 10-Minute ERS (except for the ability to comply with a Dispatch Instruction within ten minutes) is eligible to participate in the 30-Minute ERS pilot. Generators (registered or unregistered) are not eligible to participate in this pilot; however, Loads with backup generators that do not inject into the ERCOT system are eligible to participate. Any ERS Resource which is suspended from participation in 10-Minute ERS may participate in 30-Minute ERS during the term of suspension upon meeting all requirements for reinstatement of eligibility to provide ERS. Reinstatement for the purposes of participation in this pilot project does not affect an ERS Resource's suspension for purposes of 10-Minute ERS participation.

An ERS Resource may simultaneously participate in both the 30-Minute ERS pilot and 10-Minute ERS, but ERCOT will not accept any offer that would obligate an ERS Resource to provide both 30-Minute ERS and 10-Minute ERS during the same Time Period. Participants will be required to qualify for participation through an ERS Resource ID (ERID) process. ERCOT will issue a Market Notice to all QSEs announcing the commencement of the ERID process.

During the procurement cycle for the October 2012 to January 2013 30-Minute ERS Contract Period (or any subsequent Contract Period in this pilot project), an entity may submit separate offers to provide 30-Minute ERS and to provide 10-Minute ERS during that same period.

As with 10-Minute ERS, participants in 30-Minute ERS need not have submitted a Standard Form Market Participant Agreement, although they must be represented by a QSE. Offers to provide 30-Minute ERS may be submitted only by ERCOT-registered QSEs. QSEs representing Pilot Resources must have submitted a fully executed 30-Minute ERS Supplement to Market Participant Agreement (which is attached hereto as Attachment A and incorporated herein for all purposes) prior to submitting any offer, but are not required to have submitted a Standard Form Emergency Response Service Agreement in Section 22, Attachment G, as a condition for participation in this pilot. The 30-Minute ERS Supplement to Market Participant Agreement is available on the Pilot Projects page on the ERCOT website. QSEs submitting offers on behalf of ERS Resources for the July 15, 2012, to September 30, 2012 Contract Period will not be required to have XML capability, as would otherwise be required by Protocols Section 3.14.3.1(2) beginning July 1, 2012.

4. PROCUREMENT PROCESS

4.1 Schedule/Methodology

ERCOT will procure 30-Minute ERS for the following Contract Periods:

- July 15, 2012, to September 30, 2012
- October 1, 2012 to January 31, 2013
- February 1, 2013 to May 1, 2013 (if necessary¹)

For each Time Period in each procurement cycle, ERCOT will procure no more than 150 MW of 30-Minute ERS capacity. Except as otherwise directed by ERCOT in an RFP, each 30-Minute ERS procurement cycle will follow the same schedule and methodology established for procurement of 10-Minute ERS, with the exception of the July to September 2012 Contract Period, which will proceed according to the following schedule:

- June 8, 2012: ERS Resource Identification (ERID) submission window opens
- June 25, 2012: Offer submission deadline for July to September 2012 Contract Period
- July 10, 2012: ERCOT publishes procurement results
- July 15, 2012: First Contract Period begins
- September 30, 2012: First Contract Period ends

¹ See Section 10, Evaluation and Termination of Pilot Project, for further explanation of the timeline for review of the pilot.

4.2 Clearing Price

Consistent with the Commission's discussion of the ERS pricing mechanism in the preamble of its final order in PUC Project No. 39948, ERCOT will test the viability of a market clearing price mechanism in this pilot project. In the absence of a requirement to purchase a particular quantity of capacity for each Time Period in each Contract Period, ERCOT will use the following process to procure 30-Minute ERS Loads:

1. ERCOT will clear all offers that meet ERCOT's reasonable-bid criteria up to the 150-MW maximum. The criteria used to determine reasonableness of bids will be similar to those established for 10-Minute ERS with additional consideration given to the operational value of 30-Minute ERS as compared with 10-Minute ERS.
2. The price of the highest offer cleared to provide 30-Minute ERS under the pilot will be the market clearing price for all offers cleared.

5. PERFORMANCE OBLIGATIONS AND MONITORING

Pilot Resources will be subject to the same deployment obligations as 10-Minute ERS Resources, except as follows:

5.1 Maximum Deployment Obligation

ERCOT may deploy 30-Minute ERS only during an EEA Level 1, 2, or 3, or during a Load-shed test. ERCOT will deploy 30-Minute ERS (whether by test or actual event deployment) a minimum of one time per Contract Period and may deploy 30-Minute ERS a maximum of four times during a Contract Period. ERCOT may not deploy 30-Minute ERS for more than eight cumulative hours during any Contract Period. Once the eight hour maximum is reached, ERCOT will recall Pilot Resources through a separate Verbal Dispatch Instruction ("VDI"); however, the absence of a recall VDI after 8 hours does not obligate a Pilot Resource to remain deployed.

5.2 EEA Deployment

ERCOT may deploy 30-Minute ERS following a declaration of EEA Level 1, 2, or 3. In the event a deployment is necessary, the ERCOT Real-Time Desk will issue a VDI to all QSEs requiring deployment of 30-Minute ERS. ERCOT will deploy 30-Minute ERS independent of 10-Minute ERS, and any instruction to deploy 10-Minute ERS shall not be understood to be a deployment of 30-Minute ERS.

Upon ERCOT's issuance of a VDI deploying 30-Minute ERS, a Pilot Resource must provide demand response consistent with its obligation and baseline assignment within thirty minutes of the completion of the instruction to the participant's QSE. ERCOT will determine compliance with the thirty-minute deployment requirement based on metered output measured during the first complete interval following the end of the 30-minute ramp period.

An ERS Resource which would otherwise be obligated under Paragraph (e) of Section 3.14.3.3, Emergency Response Service Provision and Technical Requirements, to return to its required availability

level within ten hours following a deployment of either 10-Minute or 30-Minute ERS is not so obligated if the ERS Resource is required to comply with a valid ERS Dispatch Instruction during any part of the ten-hour return period. The obligation to be available for deployment will only apply after ten hours has elapsed following the end of the last period in which the ERS Resource was required to be deployed.

5.3 Testing

ERCOT will conduct unannounced Load-shed testing of Pilot Resources by way of a VDI to all QSEs representing Pilot Resources. During a test, each obligated Pilot Resource must provide demand response consistent with its obligation and baseline assignment until instructed to return from deployment by ERCOT, provided that ERCOT may not deploy Pilot Resources for a period longer than one hour. In testing Pilot Resources, ERCOT will not be limited to the cumulative one-hour testing limit applicable to ERS Resources described in paragraph (4) of Section 8.1.3.2. ERCOT will treat performance during all Load-shed tests conducted during a Contract Period as events for the purposes of determining payment for that period.

Pilot Resources will not be subject to additional Load-shed tests as described in paragraph (1) of Section 8.1.3.2. If 30-Minute ERS is ultimately added to the Protocols, successful deployment during a test or event during the pilot will not provide any exemption from testing in subsequent ERS Contract Periods after the pilot terminates.

6. LIMITED MORATORIUM ON SUSPENSION

Pilot Resources and QSEs representing Pilot Resources are not subject to suspension for failure to comply with performance or availability requirements for 30-Minute ERS. This moratorium on suspension applies only to 30-Minute ERS for the duration of the pilot.

7. COMPENSATION

30-Minute ERS will be settled according to the same rules and principles applicable to 10-Minute ERS, except as follows:

1. ERCOT will settle 30-Minute ERS using the clearing price for that service in lieu of the price offered by the QSE, as ordinarily required by Section 6.6.11.1 of the Protocols.
2. If a QSE fails to achieve an Event Performance Factor of 0.95 or greater, then for each of the QSE's Pilot Resources that fails to meet its event performance obligations for a Contract Period, that Pilot Resource's Event Performance Factor shall be equal to the square of the Pilot Resource's Event Performance Factor calculated in accordance with Section 8.1.3.1 of the Protocols.
3. If a QSE fails to achieve an Availability Factor of 0.95 or greater, then for each of the QSE's Pilot Resources that fails to meet its availability obligations for a Contract Period, the Pilot Resource's Availability Factor shall be equal to the square of the Pilot Resource's Availability Factor calculated in accordance with Section 8.1.3.1 of the Protocols.

4. In calculating the QSE's payment pursuant to Section 6.6.11.1 of the Protocols, ERSAFWT shall be the lower of the value calculated as specified in section 8.1.3.1.3.3 or 0.25.
5. For purposes of settlement, ERCOT will denote payments and charges associated with 30-Minute ERS separate from payments and charges for 10-Minute ERS.

8. PROGRAM COSTS

ERCOT estimates that the pilot project will cost \$8.9 million. This figure assumes that the pilot exists through the February to May 2013 30-Minute ERS Contract Period and is based on average per-MW prices for Emergency Interruptible Load Service (EILS) for the previous three EILS Contract Periods, multiplied by the project cap of 150 MW. It is possible that these costs could be somewhat higher or lower, depending on the prices and quantities offered or the actual duration of the pilot project. It is conceivable that the cost of the pilot could be far less than \$8.9 million.

ERCOT anticipates a Full-Time Employee equivalent impact on the Demand Integration group of 0.6, and a Full-Time Employee equivalent impact of 0.1 on the Settlements group to facilitate this pilot project. ERCOT will absorb this impact in its current Operations and Maintenance budget for 2012 (and 2013 if necessary).

Costs of total ERS payments will be assessed against QSEs representing Load on a Load-Ratio Share basis, consistent with Section 6.6.11.2 of the Protocols. ERCOT's procurement of 30-Minute ERS for this pilot is subject to the \$50 million cost cap specified in P.U.C. Substantive Rule 25.507(b)(2).

9. SELF-PROVISION

QSEs eligible to self-provide 10-Minute ERS may self-provide 30-Minute ERS during the pilot. Eligible QSEs must follow the process described in Section 3.14.3.2, Emergency Response Service Self-Provision, so that ERCOT can account for the amount of self-provided service.

10. EVALUATION AND TERMINATION OF PILOT PROJECT

Following the July to September 2012 Contract Period and the procurement cycle for the October 2012 to January 2013 Contract Period, ERCOT will conduct an initial assessment of the 30-Minute ERS pilot project and issue a report to the Board summarizing its findings. ERCOT expects to be able to issue its report to the Board between mid-November and early December following its review of the meter data for the first Contract Period.

Depending on the results and timing of the initial assessment and the Board's decision, it may be necessary to delay any implementation until the procurement cycle preceding the June to September 2013 Standard Contract Term. In this event, the pilot may be extended for an additional February to May 2013 Contract Period, as described above. If the Board ultimately approves an NPRR authorizing the introduction of 30-Minute ERS, the program will terminate at the end of the Contract Period prior to the implementation of the NPRR.

Following the termination of the pilot project, ERCOT will present a final assessment of the pilot project to the Board. This assessment will summarize the costs and benefits of the 30-Minute ERS pilot over the entire period of the project.

If ERCOT determines that 30-Minute ERS should not be implemented, ERCOT may terminate the program by issuing a Market Notice to that effect. If the Market Notice is issued during a Contract Period, the program will terminate at the end of that Contract Period. Irrespective of the reason for termination of the pilot, ERCOT will settle all pilot project obligations in accordance with the terms of this Governing Document.

11. CONSTRUCTION

This Governing Document will be liberally construed to achieve the purposes of the pilot. Capitalized terms will be given the meaning assigned by the ERCOT Protocols, provided that terms unique to 10-Minute ERS shall be construed consistently with the requirements of this Governing Document for the purposes of the 30-Minute ERS pilot project. In the event of any conflict between this Governing Document and the ERCOT Protocols, Operating Guides, or any Other Binding Document, the Governing Document will govern, but only to the extent the conflict relates to the administration of this pilot project.

**30-Minute Emergency Response Service Pilot Project
Supplement to Market Participant Agreement
Between
(Name of QSE)
and
Electric Reliability Council of Texas, Inc.**

This Supplement to Market Participant Agreement (“Supplement”), effective as of [START DATE] (“Start Date”), is entered into by and between [PARTICIPANT’S NAME], a Qualified Scheduling Entity in the ERCOT Region (“QSE” or “Participant”) and Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (“ERCOT”).²

Recitals

WHEREAS:

- A. The Public Utility Commission of Texas (“PUCT”) has authorized ERCOT to conduct pilot projects in P.U.C. Substantive Rule 25.361(k);
- B. The ERCOT Board has approved a pilot project for an Emergency Response Service (“ERS”) product with a 30-minute response time (“30-Minute ERS”), as described in the Governing Document for 30-Minute Emergency Response Service (“Governing Document”);
- C. Participant is a QSE in the ERCOT Region and has executed a Standard Form Market Participant Agreement (“Market Participant Agreement”) with ERCOT;
- D. Participant is a QSE representing an entity or entities owning or controlling Load(s) that will be obligated to provide 30-Minute ERS;
- E. Participant and ERCOT wish to supplement the Market Participant Agreement between Participant and ERCOT to provide for Participant to represent 30-Minute ERS Resources; and
- F. The Parties enter into this Supplement in order to establish the terms and conditions by which ERCOT and Participant will discharge their respective duties and responsibilities with respect to the 30-Minute ERS pilot project.

Agreements

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, ERCOT and Participant (the “Parties”) hereby agree as follows:

- A. All terms and conditions of the Market Participant Agreement between Participant and ERCOT remain in full force and effect.

² Unless otherwise indicated, capitalized terms in this Supplement have the meanings ascribed to them in the ERCOT Protocols.

- B. In addition to its obligations under the Market Participant Agreement with ERCOT, Participant will submit offers on behalf of 30-Minute ERS Resources as described in each 30-Minute ERS Request for Proposal issued by ERCOT.
- C. Participant and ERCOT will abide by and comply with the rules of the 30-Minute ERS pilot project set out in the Governing Document as well as all ERCOT Protocols and Technical Requirements concerning 10-minute ERS, to the extent they are consistent with the Governing Document.
- D. Each award of ERS will be confirmed by ERCOT in an award notification to Participant.
- E. Either Party may terminate this Supplement by providing 30 days' notice to the other Party; however, no termination of this Supplement will be effective before the end of a 30-Minute ERS Contract Period for which ERCOT has already issued an award notification to Participant.
- F. Otherwise, this Supplement will terminate upon the completion of all obligations incurred under the terms of the Governing Document and this Supplement.
- G. This Supplement may be executed in two or more counterparts, each of which is deemed an original but all constitute one and the same instrument.

SIGNED, ACCEPTED, AND AGREED TO by each undersigned signatory who, by signature hereto, represents and warrants that he or she has full power and authority to execute this Supplement.

Electric Reliability Council of Texas, Inc.:

By: _____

Printed Name: _____

Title: _____

Date: _____

Participant:

By: _____

Printed Name: _____

Title: _____

Date: _____