**ERCOT’S RESPONSES ARE SHOWN IN BLUE TEXT AFTER EACH QUESTION.**

***Questions-Comments***

***ERCOT Governing Document for Fast-Responding Regulation Service Pilot Project***

R. Jones 24 August, 2012

1. Within ***2. Purpose,*** the first bullet indicates that the pilot test is to “*Determine whether FRRS can improve ERCOT’s ability to arrest frequency decay during unit trips*; “. The ability to arrest frequency decay and limit the depth of the frequency’s nadir point is commonly referred to as Primary Frequency Response (PFR). PFR is triggered by frequency alone and consists of generating units’ speed governor response coupled with loads’ natural frequency dampening effect. Secondary frequency response (SFR) consists of the injection of energy into the grid and is created by control signals such as Automatic Generation Control (AGC) pulses or setpoints to generating unit controllers.

Question: Since current Regulation UP providers are already obligated to provide PFR and SFR, how is this service different from the existing Regulation Service and why aren’t these fast providers simply included as qualified providers and allowed to offer into the existing Regulation UP Service?

Fast Response Regulation Service is different from PFR and SFR in that FRRS Resources must provide MW more quickly. ERCOT’s presentations have included graphs showing the differences between the responses expected from 65 MW of FRRS and 65 MW of PFR. This faster response may justify a higher payment, so integrating these Resources into the existing Regulation Service may not be appropriate.

Follow-Up Question: If the pilot’s construct involves paying faster resources for PFR, then how can the contribution of PFR by all existing resources not have value? (Note: Existing resources are obligated to provide PFR at no cost. This proposed new service would be the first time PFR is paid for by loads but it would only be paid to a subset of resources.)

ERCOT is open to exploring the idea of creating a PFR service.

1. Presuming success of the pilot project, QSEs managing FRRS resources will become obligated under Protocols 8.1.1.2.1 (2) to provide constant frequency control to maintain the eligibility of their resources to provide Regulation Service. Question: Will these portfolios be tested including the FRRS resources to ensure that this obligation can be fulfilled?

Since the NPRR has not yet been developed, the answer to this question isn’t currently known.

1. Within ***2. Purpose***, the fifth bullet indicates that “pay-for-performance” methods will be evaluated by ERCOT. The current ERCOT markets’ design lean heavily on competition and price formation resulting from the natural forces of the markets’ economics. The Protocols crafted by stakeholders include the settlements treatment for services, yet this governing document appears to indicate that ERCOT would “…determine the appropriate settlement treatment for Resources providing FRRS,….” Question: As part of this pilot and the resulting NPRR, will ERCOT be assigning some level of payment for this service outside of the normal price formation processes currently used in the market?

ERCOT will not be adopting any “pay-for-performance” approach as part of the Pilot. Depending on the results of the Pilot, any NPRR that may be proposed could include some pay-for-performance component, but the specifics of that proposal cannot be predicted. Any NPRR would also be subject to change as it goes through the stakeholder process.

Follow-Up Question: Please explain what is involved in “pay-for-performance” for fast response regulation service in other markets and FERC Order 755’s applicability to our ancillary service markets.

FERC Order 755 does not apply to ERCOT; however it discusses several methods by which jurisdictional ISOs may compensate Regulation providers for performance.

1. Question: How will ERCOT provide transparency to the market on the data and results of this pilot project? (Will the pilot’s data be posted on the public portion of the MIS?)

Detailed data will be provided to PDCWG for their review. Aggregated data and analysis at a higher level will be reviewed at ETWG. ERCOT will post any report on the Board page of the ERCOT website.

1. In ***11. Evaluation and Termination of Pilot Project***, the first paragraph implies that ERCOT would request that the Board of Directors initiate a Board Priority NPRR in an effort to implement a permanent ancillary service for FRRS. Question: If requesting Board Priority is not a part of the PUCT Substantive Rule governing pilot projects, why is ERCOT staff proposing this special treatment of an NPRR?

The sentence in question was intended only to clarify what could happen; nonetheless, ERCOT has removed this sentence to avoid any confusion.

This same paragraph also states that if ERCOT sees substantial operational benefit to this service it will propose it to the Board. Question: This service was originally vetted with stakeholders as having the potential of reducing the amount of Regulation Service and therefore reducing Regulation costs borne by loads. Will a cost-benefit study be done on this service or is the focus shifted to operational benefits alone?

The relative cost of FRRS would presumably be a factor in any decision to procure this service after the pilot. However, the pilot is intended to identify the benefits of FRRS relative to Regulation Service. This assessment will likely inform any settlement methods that may be adopted, which will in turn affect cost. In any case, ERCOT has removed this sentence.

1. Within ***12. Construction***, ERCOT will not require FRRS participants or QSEs representing them to comply with any requirements relative to ancillary services (including Regulation Service). Question: Without requiring pilot participants to adhere to the control performance requirements for providing Regulation Service during the pilot, how can we be sure that they will remain qualified to provide the service after the pilot when they will be required to comply with those requirements?

Only Resources that comply with the requirements for conventional Regulation Service will be qualified to provide conventional Regulation Service during and after the pilot. If the Board ultimately approved FRRS as a separate Ancillary Service, it’s possible that FRRS-only Resources would not be required to meet performance requirements of conventional Regulation.

1. Within ***12. Construction***, the language in the second paragraph attempts to make the Protocols, Operating Guides and Other Binding Documents subordinate to the document. Many, if not all, market participants consider the Protocols to be superior to all other ERCOT documents where conflicts in meaning arise. Question/s: Is it ERCOT’s intent that this and all future pilot project documents will be superior to the Protocols relative to the pilots even though multiple parties are subject to the Protocols and not just the pilot participants?

Yes; if this document were inferior to the Protocols, the Protocols would control where the pilot provided a different result.

Does this document signal the beginning of a new category of Other Binding Documents entitled “Governing Documents”, which will all be considered superior to the Protocols for the purposes of their respective pilot projects?

Pilot project governing documents are not “Other Binding Documents,” which are subordinate to the Protocols. Governing documents do have a new special legal status.

What enables this document to be superior to the Protocols without first being approved as a document for addition to the Other Binding Documents listing?

PUC Rule 25.361(k) implicitly authorizes this when it allows ERCOT to develop pilots and to “grant temporary exceptions from ERCOT rules, as necessary to effectuate the purposes of the pilot.”