



Date: October 6, 2014
To: Board of Directors
From: Mark Patterson, Manager Demand Integration
Subject: Other Binding Document, Emergency Response Service Procurement Methodology

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: October 13-14, 2014

Item No.: 6.2

Issue:

Whether the ERCOT Board of Directors (Board) should approve revisions to the Emergency Response Service Procurement Methodology (Methodology), consistent with the recommendations of ERCOT Staff and the Technical Advisory Committee (TAC).

Background/History:

The ERCOT Board approved the original Methodology as an Other Binding Document on November 19, 2013. On April 8, 2014, the Board modified the Methodology to explicitly authorize proration of offers whenever accepting all offers at the clearing price would exceed the expenditure limit. ERCOT proposes these additional revisions to further clarify the means by which a QSE signifies that a Resource's offer may be prorated. These revisions incorporate terminology recently updated by ERCOT in the Emergency Response Service Technical Requirements and Scope of Work document. On August 28, TAC voted to endorse the proposed changes to the Methodology. There was one abstention from the Independent Power Marketer (IPM) Market Segment (Morgan Stanley).

Key Factors Influencing Issue:

ERCOT's proposed changes to the Methodology provide important clarifications to help QSEs understand how ERCOT will prorate ERS offers.

Conclusion/Recommendation:

ERCOT staff recommends that the Board approve revision of the ERS Procurement Methodology as set forth in Attachment A.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the change control process for the Other Binding Document, Emergency Response Service Procurement Methodology, requires the approval of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT); and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to approve the revised Other Binding Document, Emergency Response Service Procurement Methodology, as described in Attachment A; and

WHEREAS, the ERCOT Technical Advisory Committee (TAC) has voted to endorse the revision to the Other Binding Document, Emergency Response Service Procurement Methodology, as described in Attachment A;

THEREFORE, BE IT RESOLVED, that the Board approves the revised Other Binding Document, Emergency Response Service Procurement Methodology, as described in Attachment A to be effective November 1, 2014.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its October 13-14, 2014 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of October, 2014.

Vickie G. Leady
Assistant Corporate Secretary



Attachment A

EMERGENCY RESPONSE SERVICE

Procurement Methodology

DRAFT

Date Approved	Version	Description	Author(s)	Approved By	Effective Date
11/19/13	0.1	ERCOT Board approved NPRR564, Thirty-Minute Emergency Response Service (ERS) and Other ERS Revisions, and associated OBD, Emergency Response Service Procurement Methodology	ERCOT	ERCOT Board	11/20/13
4/8/14	0.2	<p>Revised Section G, Clearing Price. Language grey boxed until effective date of 5/1/14.</p> <p>History:</p> <ul style="list-style-type: none"> • 3/11/14 – Notification of proposed revisions. • 3/27/14 – TAC recommended approval. • 4/8/14 – ERCOT Board of Directors approved. • 5/1/14 – Removed grey box from Section G. 	ERCOT	ERCOT Board	5/1/14

Table of Contents

A. Document Description	5
B. Change Control Process.....	5
C. ERS Capacity Demand Curve	5
D. ERS Offer Cap	6
E. ERS Expenditure Limit.....	6
F. Capacity Inflection Point.....	7
G. Clearing Price	8
H. ERS Capacity provided through ERS Self Provision	9

Electric Reliability Council of Texas, Inc. (ERCOT) administers Emergency Response Service (ERS) in accordance with Public Utility Commission of Texas (PUC) Substantive Rule §25.507, Electric Reliability Council of Texas (ERCOT) Emergency Response Service (ERS)¹ and the ERCOT Nodal Protocols. This document is intended to be consistent with these standards, but to the extent any conflict exists, the PUC Rule or Protocols control.

¹ <http://www.puc.state.tx.us/agency/rulesnlaws/subrules/electric/25.507/25.507ei.aspx>

A. Document Description

This document describes the mechanism for procuring ERS and is considered an “Other Binding Document,” as that term is defined in the ERCOT Protocols.

B. Change Control Process

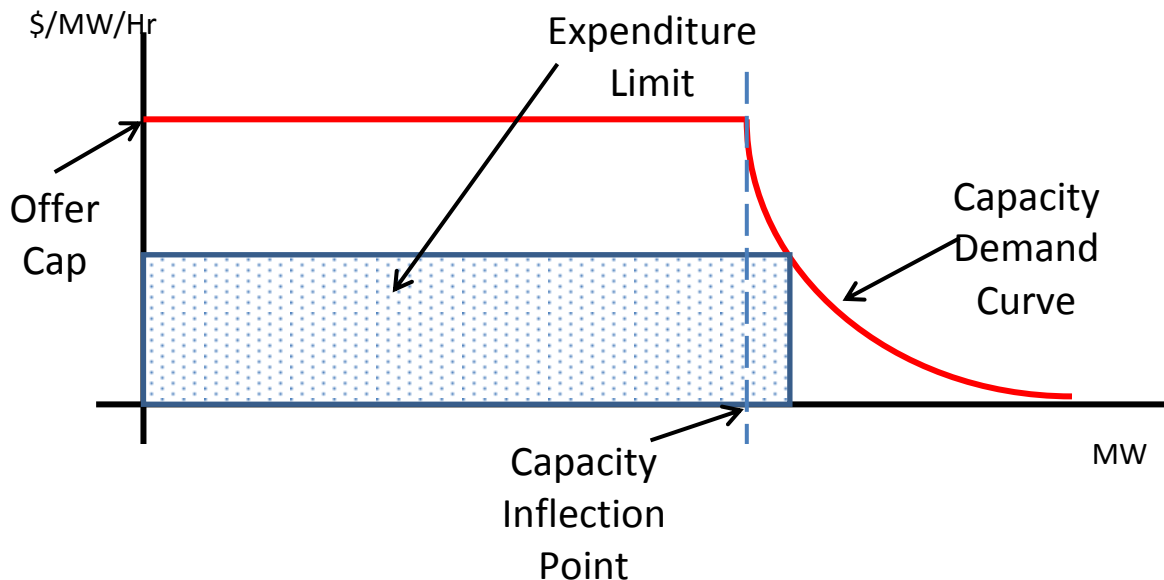
ERCOT Staff will provide a period for stakeholder review and comment for proposed revisions to this document as follows:

- (1) ERCOT shall post proposed revisions to the Emergency Response Service Procurement Methodology to the ERCOT website.
- (2) ERCOT shall also electronically notify stakeholders of the proposed revisions via the TAC and Others distribution list and define the comment period which shall be at least 14 days after initial posting.
- (3) To receive consideration, comments should be submitted via email to ERS@ercot.com by the deadline set forth in the notification.
- (4) Upon Market Participant written request, ERCOT will conduct a conference call and online review of the submitted comments.
- (5) ERCOT will review proposed document revisions with the Technical Advisory Committee (TAC).
- (6) ERCOT will submit proposed document revisions for ERCOT Board approval.
- (7) Within three Business Days of ERCOT Board approval, ERCOT shall post the revised document to the ERCOT website.

C. ERS Capacity Demand Curve

ERCOT will develop a capacity demand curve for each ERS Time Period, and all ERS products will be procured together within the limits of that curve. ERCOT shall maximize the MW procured subject to the expenditure limit for the relevant Time Period. Each demand curve is derived from the three following parameters, which ERCOT will specify in the RFP for ERS procurement:

- (1) ERS Offer Cap
- (2) ERS Time Period Capacity Inflection Point
- (3) ERS Time Period Expenditure Limit



D. ERS Offer Cap

The ERS offer cap establishes a maximum possible procurement price of \$80/MW/hr for every ERS Time Period during the ERS budget year. ERCOT will automatically reject any offers above the offer cap. This cap is consistent with the prices historically paid to Loads participating in TDSP Standard Offer Load Management Programs.

E. ERS Expenditure Limit

P.U.C. Substantive Rule 25.507 restricts ERCOT's ERS expenditures to an annual cost cap of \$50 million. ERCOT will allocate the \$50 million available expenditure within its ERS budget year, which starts with the February through May Standard Contract Term and ends with the October through January Standard Contract Term. No later than 60 days before each new ERS budget year, ERCOT will make an initial allocation of the annual expenditure limit to each ERS Time Period in each ERS Standard Contract Term based on the expected risk of reaching an EEA in that ERS Time Period, in accordance with the formula detailed below. ERCOT will assign a high (H), moderate (M), or low (L) risk designation to each ERS Time Period and will assign a risk-weighting factor (a value from 1 to 10 with 10 being the highest risk value) for each risk designation. ERCOT's risk assessment will consider a number of factors, including, but not limited to, forecasted operating reserves, forecasted Load, and Resource outage information. 60 days before each ERS Standard Contract Term begins, ERCOT will update the allocation for each remaining ERS Time Period in the budget year to reflect updated forecasts and any expected remaining funds from ERS Standard Contract Terms within the same ERS budget year. Any funds remaining at the end of an ERS budget year will not be carried forward into a new ERS budget year.

For each ERS Time Period, the expenditure limit is calculated as follows:

$$Expenditure\ Limit_{TP} = Annual\ Expenditure\ Limit \times \frac{Expenditure\ Limit\ Allocation\ Factor_{TP}}{Factor_{TP}}$$

Where;

$$Expenditure\ Limit\ Allocation\ Factor_{TP} = \left[\frac{Risk\ Weighting_{TP} \times \#hrs_{TP} \times Offer\ Cap}{Factor_{TP}} \right] \div \left[\sum_{TP} \frac{Risk\ Weighting_{TP} \times \#hrs_{TP} \times Offer\ Cap}{Factor_{TP}} \right]$$

F. Capacity Inflection Point

The capacity inflection point establishes the point on the capacity demand curve where capacity can only be procured at an offer price less than the ERS Time Period offer cap while respecting the expenditure limit for that ERS Time Period. The capacity inflection point for each time period is calculated as follows:

$$CapInflectionPoint_{TP} = ExpenditureLimit_{TP} \div [\#hrs_{TP} \times OfferCap]$$

Table A below provides hypothetical calculations of the expenditure limits and capacity inflection point for each ERS Time Period in each budget year.

		Risk Level	Risk Weighting Factor (a)	Time Period Hours (b)	Price Cap (c)	(a)*(b)*(c)	Expenditure Limit Allocation Factor	ERS Time Period Expenditure Limit	Capacity Inflection Point (MW)
FebMay	bh1	L	1	430	\$ 80	34,400	3.05%	\$ 1,527,423	44.4
	bh2	L	1	258	\$ 80	20,640	1.83%	\$ 916,454	44.4
	bh3	L	1	344	\$ 80	27,520	2.44%	\$ 1,221,938	44.4
	nbh	L	1	1,871	\$ 80	149,680	13.29%	\$ 6,646,064	44.4
JunSep	bh1	L	1	420	\$ 80	33,600	2.98%	\$ 1,491,901	44.4
	bh2	H	10	252	\$ 80	201,600	17.90%	\$ 8,951,407	444.0
	bh3	H	10	336	\$ 80	268,800	23.87%	\$ 11,935,209	444.0
	nbh	L	1	1,920	\$ 80	153,600	13.64%	\$ 6,820,119	44.4
OctJan	bh1	L	1	420	\$ 80	33,600	2.98%	\$ 1,491,901	44.4
	bh2	L	1	252	\$ 80	20,160	1.79%	\$ 895,141	44.4
	bh3	L	1	336	\$ 80	26,880	2.39%	\$ 1,193,521	44.4
	nbh	L	1	1,945	\$ 80	155,600	13.82%	\$ 6,908,923	44.4

Table A. ERS Time Period Expenditure Limit Allocation and Capacity Inflection Point Calculations

G. Clearing Price

The highest offer accepted for an ERS Time Period from will set the clearing price for all ERS Resources cleared in that ERS Time Period. All ERS service types specified in the Protocols will be procured using a common ERS capacity demand curve for each ERS Time Period and the highest offer accepted for an ERS Time Period will set the clearing price for all ERS service types.

If the procurement of all offers at the same price for an ERS Time Period would exceed the ERS Expenditure Limit for that ERS Time Period, ERCOT shall consider each such offer in an order established at random.

If awarding an offer would not exceed the ERS Expenditure Limit that offer will be awarded for the full capacity offered.

If awarding an offer for the full amount of the offered capacity would exceed the ERS Expenditure Limit, the following steps will be taken:

- (1) If awarding an offer for the full amount of the offered capacity would exceed the ERS Expenditure Limit, the following steps will be taken: If the QSE has indicated on its offer that capacity proration is not allowed ~~by the QSE~~ for that ERS Resource, the offer will be rejected.
- (2) If the QSE has indicated on its offer that capacity proration is allowed ~~by the QSE~~ for that ERS Resource, and if the capacity following proration is greater than or

equal to the ~~Tied Offer MW~~ Proration ~~Amount~~ Lower Limit specified on the offer, the offer will be accepted and the prorated capacity will be awarded.

- (3) If the QSE has indicated on its offer that capacity proration is allowed by the QSE for that ERS Resource, and if the prorated capacity is less than the ~~Tied Offer MW~~ Proration ~~Amount~~ Lower Limit specified on the offer, the offer will be rejected.

H. ERS Capacity provided through ERS Self Provision

For any ERS self-provision, ERCOT will reduce the Time Period expenditure limit for any offers to self-provide part or all of a QSE's ERS Obligation by the clearing price for ERS.