**Future Ancillary Services Comments**

Submitted by Direct Energy

Direct Energy appreciates the opportunity to file comments related to the ERCOT effort to design the Future Ancillary Services Markets (FAS) in ERCOT. Direct Energy believes ERCOT should consider supporting regulatory certainty and liquidity of the ancillary service markets in the FAS to improve the functioning of the ancillary services markets for load serving entities. Direct Energy also believes ERCOT should consider improving regulatory certainty and liquidity in the ancillary service markets prior to the FAS implementation.

Regulatory certainty regarding the quantity of ancillary services obligations provides load serving entities the ability to procure ancillary services bilaterally for hedging purposes. The ability to hedge ancillary service obligations bilaterally reduces ERCOT’s financial risk and provides load serving entities greater ability to reduce financial risk. Direct Energy would prefer regulatory certainty regarding ancillary service obligations for the current calendar year and up to two years beyond the current calendar year. Direct Energy understands that ERCOT must balance regulatory certainty against efficiency of ancillary service quantities. Therefore, Direct Energy looks forward to working with the stakeholders and ERCOT Staff regarding methods to incorporate maximum regulatory certainty in the FAS.

Direct Energy believes the current ERCOT forward bilateral ancillary service markets suffer from a lack of liquidity. Liquidity in markets improves price transparency and reduces transaction costs. Direct Energy believes one issue that contributes to the lack of liquidity is the limit in the Nodal Protocols on QSE’s self-arranging ancillary services that exceed the QSE’s ancillary service obligation. Given that ancillary obligations vary by hour and day this limit on self-arrangement makes it difficult for QSE’s to confidently bilaterally transact for ancillary service quantities that meet the entire ancillary service obligation due to fear that the QSE will procure too much and strand the economic value of the excess quantity. Direct Energy believes the FAS process should consider protocol changes that allow QSEs to offer and/or financially settle with ERCOT ancillary service quantities that exceed the ancillary service obligation of the QSE. Allowing QSEs to offer and/or settle with ERCOT ancillary service quantities that exceed the QSEs obligation will promote liquidity.