



**Date:** June 7, 2016  
**To:** Board of Directors  
**From:** Chad V. Seely, Vice President & General Counsel  
**Subject:** Approval of Standard Form Reliability Must-Run (RMR) Agreement Between NRG Texas Power LLC and ERCOT for RMR Unit Greens Bayou Unit 5

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** June 14, 2016

**Item No.:** 8

**Issue:**

Whether the ERCOT Board of Directors (Board) should approve a 25-month term for the Reliability Must-Run (RMR) agreement between ERCOT and NRG Texas Power LLC (NRG) extending from June 1, 2016 through June 30, 2018.

**Background/History:**

On June 2, 2016, ERCOT executed a Standard Form Reliability Must-Run Agreement with NRG. The agreement requires NRG to make its Greens Bayou Unit 5 (GBY\_GBY\_5) available to provide 371 MW of capacity for use upon request by ERCOT for all hours during the months of July through September 2016, June through September 2017, and June 2018. The agreement requires ERCOT to pay NRG a standby payment of \$3,185 per hour during the term of the agreement, subject to true-up to actual cost.

The term of the RMR agreement begins on June 1, 2016 and, pending Board approval, ends on June 30, 2018. ERCOT determined that this 25-month term is needed so that the unit can be available during summer months until the Houston Import Project is energized in summer 2018. ERCOT's studies showed that, during these months, certain G-1 + N-1 contingencies will cause overloads on certain import paths into the Houston area and that Greens Bayou Unit 5 can assist in lessening these overloads. If the Houston Import Project is delayed for any reason, ERCOT has the right to extend the RMR agreement up to 90 days. The 25-month term will enable ERCOT to extend the agreement to cover the remainder of summer 2018, if necessary.

Although the Board is not required to approve the RMR agreement itself, Section 3.A.(3) of the RMR agreement states that "[a]ny Term longer than one (1) year requires ERCOT Board approval." Based on ERCOT's studies identifying overloads under the contingency conditions described, ERCOT has determined that a 25-month agreement term is appropriate and therefore requests Board approval of this term. In the event the Board does not approve this term, Section 1.B. of the RMR agreement provides that the agreement will terminate on May 31, 2017.

ERCOT notes that one sentence in Section 1.B. of the agreement erroneously states that the stop date for which Board approval is to be requested is May 31, 2018. However, earlier language in this same section states that the stop date subject to Board approval is June 30, 2018. Consistent with their negotiation of the agreement, ERCOT and NRG have agreed that the mention of the May 31, 2018 date was an inadvertent drafting error and that June 30, 2018 is the correct stop date for which Board approval should be requested. Should the Board decide *not* to approve the 25-month term, the agreement unequivocally provides that the stop date would be May 31, 2017.

**Key Factors Influencing Issue:**

There are two primary factors informing whether an agreement term of longer than one year should be approved: the potential for reliability violations in those future months and the cost of contracting with NRG to address those violations.

1. Potential for Post-Contingency Overloads After May 31, 2017

ERCOT's studies identified overloads in cases of certain G-1 + N-1 contingencies under summer peak conditions in the Houston area. These findings are consistent with previous planning studies showing violations on import paths into the Houston area as early as summer 2016 under G-1 + N-1 conditions. The Houston Import Project is anticipated to resolve these violations, but until that project is placed into service, Houston-area consumers are potentially exposed to involuntary load shed under these contingency conditions. Although committing the GBY5 unit is not expected to relieve all of the overloads identified, it will help reduce the likelihood and amount of potential involuntary load shed compared with allowing the unit to proceed to mothballed status.

2. Cost

The other primary consideration is the cost of committing this unit relative to other options. Based on NRG's budget submissions, committing Greens Bayou Unit 5 for the 25-month period from June 2016 is estimated to cost approximately \$58 million (assuming ERCOT does not identify a more cost-effective solution in the interim). By comparison, committing the unit through May 2017 would cost an estimated \$39 million based on NRG's submission. These costs are only estimates, and could be higher or lower depending on actual expenditure. ERCOT maintains the right to review NRG's costs and to deny payment for any amounts that are ultimately determined to have been inappropriately incurred.

As required by Protocol Section 3.14.1.4, ERCOT will evaluate the feasibility of other more cost-effective alternatives to maintaining the RMR agreement with NRG and will notify the Board of its findings within 90 days of executing the agreement. ERCOT

expects to provide additional information to the Board at its August 2016 meeting. If ERCOT is ultimately able to identify and procure a less expensive alternative, ERCOT has the right to terminate the RMR agreement with 90 days' notice to NRG. Thus, approving the longer agreement term does not necessarily mean that ERCOT will incur the estimated contract cost for that term.

**Conclusion/Recommendation:**

Because ERCOT has identified a potential for overloads on certain import paths into the Houston area in the event of certain contingencies under peak summer conditions, and because this potential is not expected to be alleviated until the Houston Import Project is energized in summer 2018, ERCOT recommends that the Board approve a term for the Greens Bayou Unit 5 RMR agreement extending from June 1, 2016 until June 30, 2018.



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

WHEREAS, Electric Reliability Council of Texas, Inc. (ERCOT) and NRG Texas Power LLC (NRG) on June 2, 2016 executed the ERCOT Standard Form Reliability Must-Run Agreement (Agreement) setting out the terms under which NRG will make Greens Bayou Unit 5 (GBY\_GBY\_5) available for use by ERCOT;

WHEREAS, the term of the Agreement extending from June 1, 2016 until June 30, 2018 is expressly made subject to approval by the ERCOT Board of Directors (Board), with the Agreement terminating on May 31, 2017 in the event the Board does not approve the term exceeding one year;

WHEREAS, ERCOT staff has identified the potential for overloads on the import paths into the Houston area during certain contingency conditions occurring during the summer months; and

WHEREAS, ERCOT staff has committed to investigate the feasibility of possible alternatives to the continued commitment of Greens Bayou Unit 5 under the Agreement;

THEREFORE, BE IT RESOLVED, that ERCOT hereby approves the proposed term of the June 2, 2016 Agreement between ERCOT and NRG, extending from June 1, 2016 until June 30, 2018.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 14, 2016 meeting, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of June, 2016.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary