

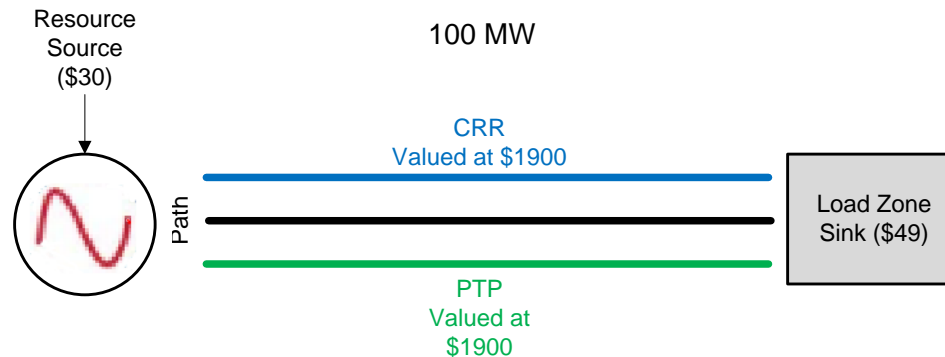
LCRA – PROPOSED COMPROMISE(S) TO NPRR821

August 24, 2017

LCRA's Position

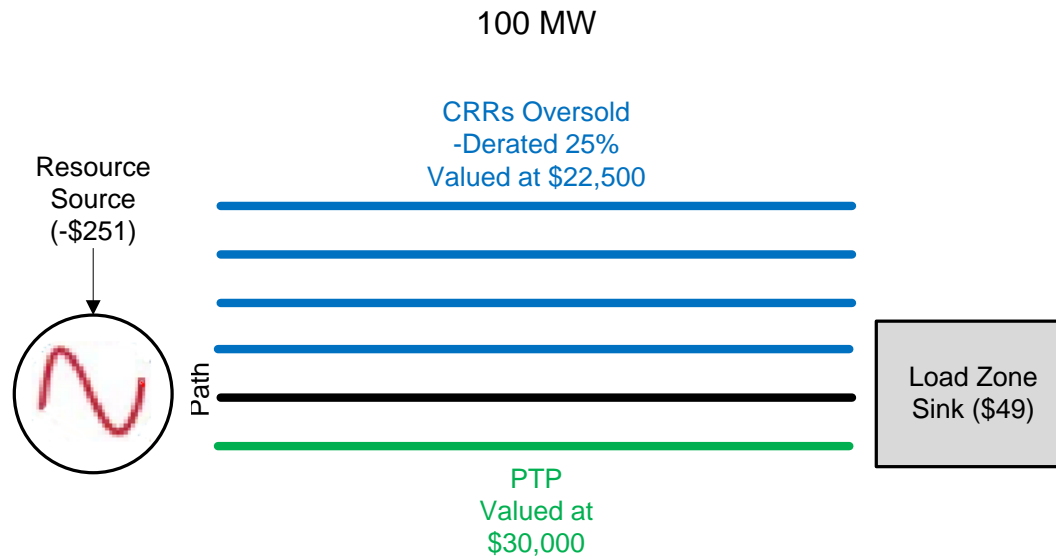
- Our generation impact of \$1.9 million that occurred in 2016 was an unusual and unique condition.
- We worked with ERCOT and others on numerous potential solutions and tried to find a balance of low impact and low implementation cost.
- Due to this fact, LCRA is proposing two solutions to fix the derate of revenues for CRRs settled in the DAM.

Simple Diagram of CRR Carried to Real-time



*Note: Without derates, bid for PTP and payment for CRR are equal for the source => sink combination.

Simple Diagram of a CRR Derate Scenario



Now, CRR value has been reduced, and PTP has not.

*Note: In 2016 event, the resource price was actually -\$251 and the path was 40% oversold, which is typical during deration.

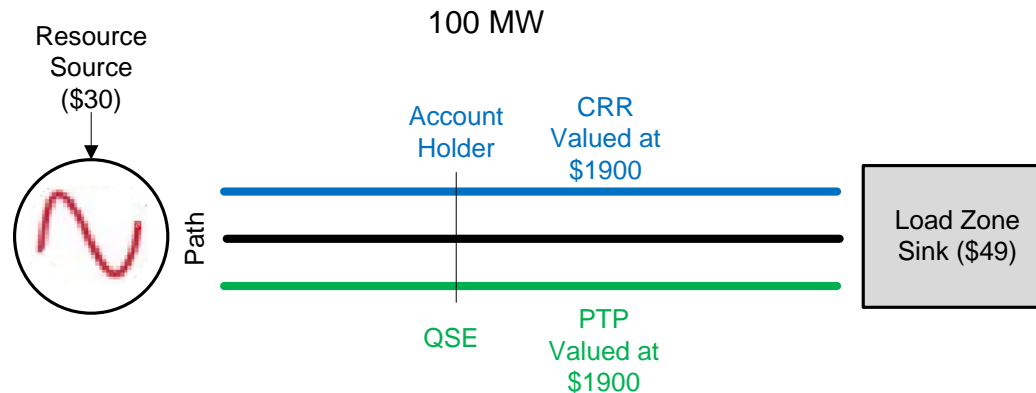
Problems

- CRR derates and PTP obligation bid clearing and awards happen during DAM
- Market participants are not aware of CRR derated values
- Market participants can overpay for PTP obligation when only trying to carry hedge to real-time
- In short, real-time resources cannot carry their CRRs to real-time without paying for them twice

Proposed Option 1: Linking of CRR Account Holder and PTP Obligation QSE on the same path

- If a PTP obligation bid is awarded to a QSE with a CRR on the same path (CRR/PTP pair), the PTP purchase price shall be linked and matched to the corresponding CRR value.
- If the CRR is derated, the PTP obligation bid settlement price is matched to the derated value of the CRR (Keeping the entity at net zero).
- Preferred Solution

Option 1 Diagram



Link CRR account holder with PTP QSE (i.e. LCRA CRR Account Holder with QSELCRA) or link the CRR ID

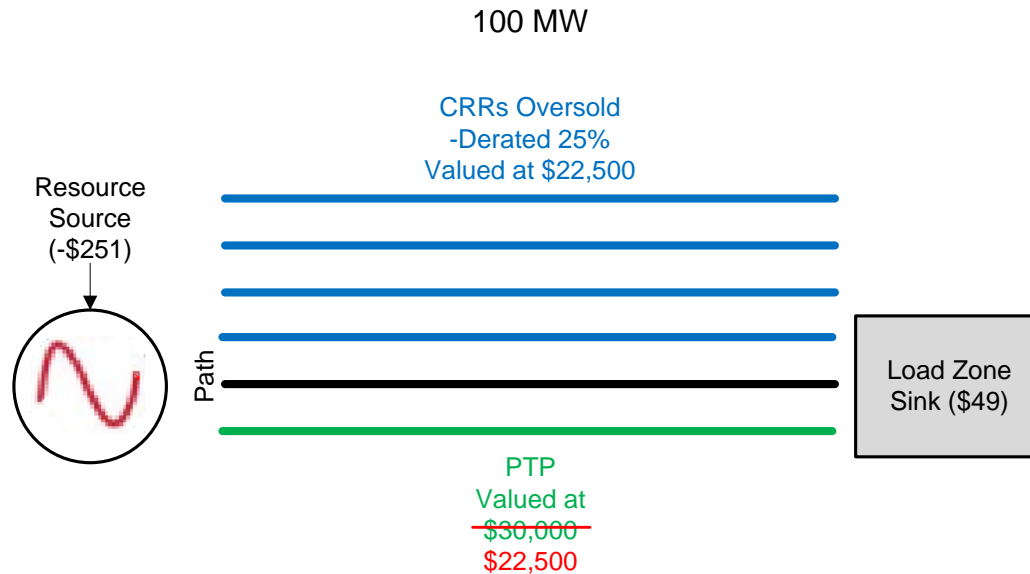
*As values or limitations change on path, these common accounts will remain net zero.

* PTP obligations with a link to Option already has a linkage to CRR and thus it requires minimum implementation cost. (ERCOT Protocols Section 4)

Proposed Option 2: Capped value of PTP on same path with derated CRR

- Impact analysis compromise (timing & cost)
- If any PTP obligation bid is awarded on a path that has been derated by the SFT, the maximum settlement price for the PTP obligation bid is capped at the derated CRR value on the same path.

Option 2 Diagram



PTPs on the same path as a derated CRR will be charged the equivalent to the derated CRR value as determined by the SFT percentage.

Recommended Motion

- LCRA is committed to finding a long-term and better solution, but due to timing concerns of the next CRR auction, asks for this minor fix.
- TAC approves LCRA's recommended language for Option 1 due to CRR annual auction timing and asks WMS to provide long-term solution to the CRR derate process by November.
- LCRA asks ERCOT to look for the most efficient way to implement Option 1 (i.e. linking of accounts).