|  |  |  |  |
| --- | --- | --- | --- |
| OBDRR Number | [004](http://www.ercot.com/mktrules/issues/OBDRR004) | OBDRR Title | Updates to Emergency Response Service Procurement Methodology |
|  | |  | |
| Date | | April 9, 2018 | |
|  | |  | |
| Submitter’s Information | | | |
| Name | | Mark Smith | |
| E-mail Address | | [msmith@smithtrostle.com](mailto:msmith@smithtrostle.com) | |
| Company | | Smith Trostle & Huerta LLP on behalf of the ERCOT Steel Mills | |
| Phone Number | | [(512) 494-9500](tel:(512)%20494-9500) | |
| Cell Number | | [(512) 635-7930](tel:(512)%20635-7930) | |
| Market Segment | | Consumer | |

|  |
| --- |
| Comments |

Chaparral Steel, CMC Steel Texas, and Nucor Steel (collectively, the “ERCOT Steel Mills”) appreciate the opportunity to provide comments on Other Binding Document Revision Request (OBDRR) 004, Updates to Emergency Response Service Procurement Methodology. The ERCOT Steel Mills have been providers of Emergency Response Service (ERS) since the implementation of P.U.C. SUBST. R. 25.507, Electric Reliability Council of Texas (ERCOT) Emergency Response Service (ERS).

The ERCOT Steel Mills have significant concerns regarding ERCOT’s proposal to change the language in the Other Binding Document (OBD) from:

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.

to

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 0 to 100 with 100 being the highest risk value) for each risk designation.

Our concern is the use of 0 as the lower bound of this range. If the risk designation is 0, then no ERS would be procured. We believe that it would be more appropriate to set the lower bound of the risk factor range to 1, rather than 0, to acknowledge that there is always some risk, albeit small, of a need for ERS. Changing the lower bound of the range to 1 would ensure that ERS will be available to ERCOT’s system operators in all time periods.

A risk factor of zero would imply that ERCOT has determined that there is “no risk whatsoever” that ERS would be needed in a particular time period. Yet, in the operation of a power system and despite the best planning, staffing, market structure, and operational procedures, there is always some risk of encountering major unexpected problems, such as Forced Outages of major Generation Resources, fuel interruptions, transmission system operational failures, national emergencies, terrorism events, or severe weather. Thus, even if ERCOT predicts sufficient reserves in a future period, there is no guarantee that problems will not occur. ERS is needed as a tool of the ERCOT Operator in such situations.

Indeed, the first part of the sentence with which we have a concern reads “ERCOT will assign a high (H), moderate (M), or low (L) risk designation to each ERS Time Period,” yet, the assignment of a “0” risk factor, indicating “no risk,” would seem to fall outside of any of the three categories. “No risk” differs from “low risk.”

The ERCOT Steel Mills supports providing ERCOT with the ability to add more granularity to the risk-weighting factors. And, we see possible value in allowing risk factors which would reflect a lower probably of a system emergency risks than a “1 out of 10” – the present lower bound – might imply. The assignment of lower risks to certain time periods will appropriately lead to lower ERS prices in such time periods, enabling ERCOT to acquire lower cost “insurance” during such periods. Moreover, such a change would enable ERCOT to more-effectively allocate its very limited ERS budget among time periods. While we support other features of the OBDRR, we urge ERCOT to set the risk factor range from 1 to 100, rather than from 0 to 100, to assure that at least some ERS is procured in every time period.

|  |
| --- |
| Revised Cover Page Language |

None.

|  |
| --- |
| Revised Proposed OBDRR Language |

Electric Reliability Council of Texas, Inc. (ERCOT) administers Emergency Response Service (ERS) in accordance with Public Utility Commission of Texas (PUCT) Substantive Rule §25.507, Electric Reliability Council of Texas (ERCOT) Emergency Response Service (ERS)[[1]](#footnote-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.

**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](mailto:EILS@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 Request for Proposal (RFP) for ERS procurement:

(1) ERS Offer Cap

(2) ERS Time Period Capacity Inflection Point

(3) ERS Time Period Expenditure Limit

MW

$/MW/Hr

Offer Cap

Expenditure Limit

Capacity

Demand

Curve

Capacity

Inflection

Point

**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 100 with 1 being the lowest risk value and 100 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.

Prior to issuing an RFP for an upcoming Standard Contract Term, ERCOT will update the ERS Time Period Expenditure Limits 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. Unless the offer submission deadline for the upcoming Standard Contract Term has passed, ERCOT may update the ERS Time Period Expenditure Limits and issue a revised RFP if funds originally allocated to the upcoming Standard Contract Term must be reallocated to fund an ERS renewal Contract Period in the current Standard Contract Term. 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:

Where

**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:

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

 **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 for that ERS Resource, the offer will be rejected.

(2) If the QSE has indicated on its offer that capacity proration is allowed for that ERS Resource, and if the capacity following proration is greater than or equal to the Proration 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 Proration 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.

1. <http://www.puc.state.tx.us/agency/rulesnlaws/subrules/electric/25.507/25.507ei.aspx> [↑](#footnote-ref-1)