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Addendum StartPage: 0

**DOCKET NO. 24770**

**REPORT OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS  
(ERCOT) TO THE PUCT REGARDING  
IMPLEMENTATION OF THE ERCOT  
PROTOCOLS**

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**ERCOT RESPONSE TO QUESTION 2  
IN ORDER NO. 13**

In accordance with the request of the Commission in Order No. 13, ERCOT hereby files this response to Question No. 2.

Question 2 addresses the issue of the feasibility, and potential gaming opportunities, of imposing separate offer caps for Generators and Load Resources in the Ancillary Services market. In its July 23, 2002, filing, ERCOT raised concerns about a potential gaming problem with large QSEs that represent both Generation and Load Resources, in that these QSEs could bid in their Load Services above \$1000 to set the price but never have the intention of utilizing the Load Resource to provide energy. As described in that filing, potential solutions for this gaming problem could be a binding Resource Plan, and/or penalties for non-performance.

At the July 19, 2002, workshop, it was suggested that another solution may be restricting Load Resources to using QSEs that only represent Load Resources (i.e., no Generators). In order for the "Load only QSE" solution to work and minimize or eliminate the gaming potential, ERCOT believes that at least three requirements must be met.

First, of course, the QSE must not represent any Generators. This could be accomplished using a sub-QSE of another QSE (which ERCOT systems recognize and treat as a separate QSE). Second, there must be a verification mechanism. This should be accomplished by using either ERCOT Polled Settlement (EPS) meters or using telemetered (SCADA) information from the Load Resources.<sup>1</sup> Actual,

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<sup>1</sup> Some time would be required to establish the necessary equipment, communications and testing for this metering installation.

complete, and timely meter data is essential for this approach to work. Only those Load Resources that have either EPS meters or that provide ERCOT with SCADA information should be eligible to set the higher clearing prices. This restriction would have to apply to Balancing Up Loads (BULs) as well if they are submitting bids and want to take advantage of the higher offer cap.

Third, if in the verification process ERCOT discovers that the Load Resource setting high clearing prices did not shed its load, ERCOT would reset the clearing price back to next highest appropriate bid, depending on the other bids in the bid stack and their compliance with offer caps (e.g., there may be another Load setting a high clearing price that meets the criteria). Using EPS or SCADA data, as proposed above, should allow ERCOT to know the correct clearing price in time for the Initial Settlement statements affected (17 days after the Operating Day).

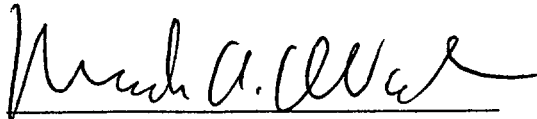
In this analysis, ERCOT has assumed that the clearing price set by a high Load Resource bid would set the market clearing price for all service providers providing the same ancillary service for the affected operating intervals. Applying different clearing prices for “Load only QSEs” and other QSEs presents a different set of system changes that ERCOT has not addressed. ERCOT anticipates that this could be done manually pending automation, which would likely require some additional staff resources, but ERCOT needs more time to consider this issue.

There may be other implementation issues that ERCOT has not discovered in this approach, and ERCOT cautions rushing to this solution pending further analysis. Setting aside unforeseen obstacles, if this approach is used ERCOT believes it can administer the process manually without undue burden, pending automation (which would likely require a year or so given other priority projects). ERCOT believes it could implement the manual process within 60 days of a decision to use this solution. That timeframe should allow time for the appropriate Protocols changes that would be necessary.<sup>2</sup>

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<sup>2</sup> ERCOT suggests that the Commission allow the Protocols revision process to implement any such solution rather than implementing the differential offer caps by order alone. Several sections of the Protocols could be affected and care should be taken in implementing such change in market design.

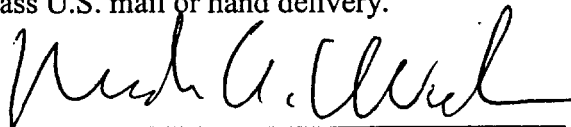
Respectfully submitted,



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**CERTIFICATE OF SERVICE**

I, Mark A. Walker, attorney for ERCOT, certify that a copy of this document filed in this docket by ERCOT was served on all parties of record in this proceeding on August 7, 2002, in the following manner: by facsimile, first class U.S. mail or hand delivery.



Mark A. Walker