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Public Utility Commission of Texas

Memorandum

TO: Chairman Rebecca Klein

Commissioner Brett Perlman

FROM: Julie Gauldin

Parviz Adib

Market Oversight Division

DATE: September 19, 2002

RE: Project # 25937, PUC Investigation into Possible Manipulation of the ERCOT Market

As requested by the commission, on July 9-10, 2002, MOD sent letters to five parties who were contractors (or subcontractors) to ERCOT involved in system and/or Protocol implementation for ERCOT. These parties were Accenture LLP, Alstom ESCA Corporation, Structure Consulting Group LLC, Bluware, and KEMA Consulting. The purpose of these letters was to determine what information these contractors may have obtained regarding loopholes, gaps or weaknesses ("issues") existing in the ERCOT systems or Protocols, to determine whether these issues have been resolved, and to determine the degree to which this information may have been shared with other parties.

The questions posed to parties are listed in Attachment 1, and a summary of their responses is given in Attachment 2.

MOD has reviewed the responses and concludes that all the issues identified by the five contractors have already been remedied by ERCOT or were already known to ERCOT and/or MOD. In addition, none of the parties admitted to sharing any information concerning the issues with other parties for the purpose of manipulating or gaming the system. Therefore, based on the responses, we believe that there has been no effect on the market and no further action is necessary concerning these contractors.

Attachment 1: Questions Posed by MOD

Question 1. Admit or Deny: At any time since September 1, 1999, you identified loopholes, gaps, or other weaknesses in the ERCOT systems or Protocols that were not resolved while you were under contract with ERCOT or, if you are currently under contract with ERCOT, have not been resolved, and could be used by a market participant to manipulate or game the ERCOT market.

Question 2. If your response to question 1 is anything other than "deny," describe each loophole, gap, or weakness and explain how it could be used to manipulate or game the ERCOT market. In your assessment of market or system gaps in the ERCOT market design, include specific references where appropriate to the ERCOT Protocols, rules of the Public Utility Commission of Texas, and/or Texas statute.

Question 3. If your response to question 1 is anything other than "deny," describe in detail the efforts you made, if any, to close or otherwise address the loophole, gap, or weakness to inhibit the ability of participants in the ERCOT market to take advantage of such loophole, gap, or weakness. For purposes of this memorandum, participants in the ERCOT market are "Qualified Scheduling Entities," "Resource Entities," "Power Marketers," or "Load Serving Entities" as those terms are defined in §2 of the ERCOT Protocols.

Question 4. If your response to question 1 is anything other than "deny," describe any activities you engaged in to bring the loophole, gap, or weakness to the attention of any participant in the ERCOT market outside the context of an ERCOT board or subcommittee meeting. In your response, provide all details related to your efforts, including the dates on which you raised this issue with a market participant and the individuals with whom the issue was addressed. Also, provide any written materials provided to these individuals.

Attachment 2: Summary of Responses

Company	Response to Question 1 (Identified Issues?)	Response to Question 4 (Shared with others for the purpose of helping them to game the system?)	Significant Issues Identified	Impact of Issues (From responses to Questions 2 & 3 and MOD's follow-up investigations into issues.)	Recommended Next Step
Accenture	Deny	N/A	None	N/A	No further action is recommended
KEMA	Deny	N/A	None	N/A	No further action is recommended
Structure Consulting Group	Admit	No	Certain scheduling issues were identified.	None – ERCOT has remedied the issues.	No further action is recommended
Bluware	Admit	No	Several Gaming Opportunities with regarding to Ancillary Services (A/S) were identified	These issues were already known by ERCOT and MOD. A/S markets will continue to be monitored by ERCOT and MOD.	No further action is recommended
Alstom ESCA	Response was submitted under confidentiality.			ERCOT and/or MOD were already aware of any issues raised.	No further action is recommended