



Control Number: 40150



Item Number: 24

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# OPEN MEETING COVER SHEET

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**MEETING DATE:** May 18, 2012

**DATE DELIVERED:** May 11, 2012

**AGENDA ITEM NO.:** 26

**CAPTION:** Project No. 40150  
PUC Rulemaking Proceeding Concerning on  
ERCOT Pilot Project

**ACTION REQUESTED:** Discussion and possible action with respect  
to Staff's draft Proposal for Adoption

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## *Public Utility Commission of Texas*

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Date: May 11, 2012

To: Chairman Donna L. Nelson  
Commissioner Kenneth W. Anderson, Jr.  
Commissioner Rolando Pablos

From: Temujin Roach, Competitive Markets Division  
Julie Black, Competitive Markets Division  
Jason Haas, Legal Division

Subject: May 18, 2012 Open Meeting, Item 26: **Project No. 40150** – *PUC Rulemaking Proceeding Concerning an ERCOT Pilot Project* – Staff's draft Proposal for Adoption

Attached is Staff's draft Proposal for Adoption in Project No. 40150, *PUC Rulemaking Proceeding Concerning an ERCOT Pilot Project*. The amendments to P.U.C. SUBST. R. 25.361 would give ERCOT the authority to conduct pilot projects to evaluate new and emerging technologies, such as energy storage projects, to determine the benefits that these technologies may bring to the ERCOT system. The proposed rule would allow ERCOT to grant temporary waivers or exceptions from ERCOT rules, as necessary to effectuate the purposes of the pilot project.

If you have any questions, please contact Temujin Roach at 936-7463, Julie Black at 936-936-7398, or Jason Haas at 936-7295.



1 PROJECT NO. 40150

2  
3 PUC RULEMAKING PROCEEDING § PUBLIC UTILITY COMMISSION  
4 CONCERNING AN ERCOT PILOT §  
5 PROJECT § OF TEXAS  
6  
7

8 (STAFF RECOMMENDATION)  
9 PROPOSAL FOR ADOPTION OF AMENDMENTS TO §25.361 FOR  
10 CONSIDERATION AT THE MAY 18, 2012 OPEN MEETING  
11  
12

13 The Public Utility Commission of Texas (commission) adopts amendments to § 25.361, relating  
14 to the Electric Reliability Council of Texas (ERCOT), with changes to the text as proposed in the  
15 March 9, 2012 issue of the *Texas Register* (37 TexReg 1581). The amendments add a new  
16 subsection (k) that would give ERCOT the authority to conduct pilot projects and allow ERCOT  
17 to grant temporary exceptions from ERCOT rules, as necessary to effectuate the purposes of the  
18 pilot projects. The amendments constitute a competition rule subject to judicial review as  
19 specified in Public Utility Regulatory Act §39.001(e). The amendments are adopted under  
20 Project Number 40150.  
21

22 The commission received initial comments from AES Energy Storage (AES), Chamisa  
23 CAES at Tulia LLC (Chamisa), ConocoPhillips Company (ConocoPhillips), The Electric  
Reliability Council of Texas (ERCOT), EnerNOC, Inc. (EnerNOC), the Environmental  
Defense Fund, Incorporated (EDF), Lone Star Chapter of the Sierra Club (Sierra Club), NRG  
Energy, Inc. (NRG), North America Power Partners (NAPP), Public Citizen, Texas Energy  
Storage Alliance (TESA), and Texas Industrial Energy Consumers (TIEC). Edison Mission  
Marketing and Trading, Inc. (EMMT) filed initial comments after the initial comment deadline,

1 but prior to the reply comment deadline. Reply comments were received from AES, Chamisa,  
2 ERCOT, TESA, and TIEC.

3

4 ***General Comments***

5 AES, Chamisa, EDF, EnerNOC, ERCOT, NAPP, NRG, Public Citizen, Sierra Club, and TESA  
6 supported the proposed rule. EDF, EnerNOC, and NRG stated their support for the proposed  
7 rule as published while AES, Chamisa, ERCOT, NAPP, Public Citizen, Sierra Club, and TESA  
8 proposed additional amendments. EMMT and TIEC opposed the rulemaking and stated that  
9 ERCOT-funded pilot projects for new technologies are unnecessary and inappropriate. ERCOT  
10 should not be functioning like a research lab.

11

12 TIEC stated that there is no need for pilot projects; any technology may participate in the market  
13 as long as it can meet the applicable ERCOT protocol requirements. Further, TIEC commented  
14 that ERCOT has the necessary flexibility to develop new ancillary services without the need to  
15 create a pilot project. Entities seeking to introduce new technologies should be responsible for  
16 researching and developing these technologies to ensure that they are capable of complying with  
17 the standards for market participation. The market should not be put in the position of testing  
18 new technologies that cannot meet the appropriate performance requirements and reliability  
19 protocols. TIEC stated that as a general rule the commission should not create special services,  
20 favorable treatments, subsidies, or exemptions to reliability and performance requirements for  
21 specific technologies, as such treatment is anti-competitive, creates artificial winners and losers,  
22 and interferes with the dynamics of the competitive market. According to TIEC, the fact that  
23 certain technologies believe a pilot project is needed before they can participate in the market

1 indicates that these technologies cannot meet performance requirements and are seeking a pilot  
2 project as an avenue to special treatment. TIEC stated that the Federal Energy Regulatory  
3 Commission (FERC) recently rejected similar calls for a pilot program.

4  
5 EMMT also argued that the entire proposed rule should be struck; they supported continuing the  
6 current process that has worked and allowed for the participation of new entrants and the  
7 development of new protocols. EMMT stated that it is discriminatory to expect certain  
8 technologies to abide by reliability rules, while ERCOT would develop different tests or test  
9 results to determine compliance for other technologies. EMMT further stated that retail  
10 consumers should not be obligated to support the development of technologies of ERCOT's  
11 choosing and that the requirement for ERCOT to consult with "affected market participants"  
12 should include all market participants, because each market participant segment will be affected  
13 in some way.

14  
15 ERCOT stated that TIEC's and EMMT's assumption that all discrimination would violate PURA  
16 is incorrect. ERCOT noted that, according to the faulty reasoning provided by TIEC, one could  
17 argue that settling different resources based on different locational marginal prices (LMPs) or  
18 requiring different response times for different ancillary services would be discriminatory.  
19 ERCOT further commented that the anti-discrimination provisions of PURA have not been  
20 interpreted to prohibit all discrimination, but to prohibit unjust and unreasonable discrimination  
21 in the competitive market. ERCOT stated that pilot projects would not create unjust or  
22 unreasonable discrimination, and the existence of special standards is not in itself a reason to  
23 reject pilot projects. ERCOT rules already recognize special standards for certain generation

1 technologies and services, so the fact that other technologies, processes, and services might be  
2 subject to special rules under a “pilot” is not meaningfully different. ERCOT stated that a rule  
3 allowing for pilot projects is justified in that such projects would facilitate the testing of new  
4 technologies that might otherwise be impossible in the absence of cooperation between pilot  
5 participants and ERCOT. Also, ERCOT commented that it should be presumed that they will act  
6 in good faith to balance the costs and benefits of a proposed pilot, and that the oversight function  
7 of the commission will ensure that ERCOT’s actions are legal and made in good faith.

8  
9 TESA stated that the commission should reject TIEC’s and EMMT’s arguments that pilot  
10 projects would discriminate against other market participants, and agreed with ERCOT that a  
11 rule allowing for pilot projects is justified in that such projects enable the thorough testing of  
12 new technologies or services that might otherwise be impossible without a pilot project. TESA  
13 noted that FERC allows other Independent System Operators to conduct pilots in order to  
14 understand the issues that might arise with incorporating advanced technologies. Further, the  
15 ability to pilot new processes and services could allow modifications to protocols that would  
16 enhance the reliability of traditional resources in ERCOT, and information developed as a result  
17 of a pilot would promote the optimal alignment of commission rules, ERCOT protocols, and  
18 ERCOT market systems with the capabilities of new programs or technologies. TESA stated  
19 that competition from new technologies may disadvantage the owners of existing resources, but  
20 it is important for ERCOT protocols to establish a fair and open market for all resources to  
21 ensure the reliability and the future of the grid and the competitive market.

22  
23 ***Commission Response***

1 **The commission disagrees with TIEC and EMMT that creating pilot projects for certain**  
2 **resources, technologies, services, and processes is unreasonably discriminatory. The**  
3 **primary purpose of a pilot project is to examine the benefit to the ERCOT market, not the**  
4 **particular market participants participating in the pilot project. A pilot project will allow**  
5 **ERCOT to gain experience with the item in question before consideration of its full**  
6 **deployment. As stated in the rule, to be eligible for a pilot project, an item must**  
7 **demonstrate the potential to advance the operational and market functions of the ERCOT**  
8 **system. The limited scope of any pilot project created under this rule, the review of any**  
9 **proposed pilot project by market participants and the ERCOT Board, and the oversight by**  
10 **the commission will ensure that a pilot project will be used only for appropriate purposes.**

11

### 12 *Items Eligible for Pilot Projects*

13 TESA proposed that the rule be amended so that pilot projects may also be used to evaluate new  
14 services, in addition to “resources, technologies, and processes;” AES, ERCOT and NAPP  
15 agreed. TESA stated that giving ERCOT the flexibility to bring in new technologies and develop  
16 new services will benefit the market as a whole.

17

18 TIEC replied that the rule should only allow for the evaluation of services in a technology-  
19 neutral manner and should apply indiscriminately to all market participants. TIEC commented  
20 that creating a service tailored to a specific technology’s characteristics would be anti-  
21 competitive and discriminatory, and would confer an artificial advantage for the selected  
22 technologies. TIEC stated that pilot projects should not allow a particular technology to provide  
23 a service under different requirements than those applied to other resources providing the same



1 service. Further, the aim of a pilot project should not be to determine whether certain market  
2 participants are eligible to receive special exemptions from protocol requirements. TIEC  
3 commented that exempting certain resources from protocol requirements would diminish  
4 reliability or force other market participants to compensate, and neither outcome would be  
5 acceptable. TIEC also noted that temporary exemptions inevitably spawn arguments that such  
6 treatment should continue even as the technology increases, or that a technology operating under  
7 pilot projects somehow creates an entitlement to allow the investment to be recovered.

8  
9 TESA disagreed with TIEC's proposal to only evaluate services, and to remove "resources,  
10 technologies, and proposals" from the rule language. TESA stated that the purpose of a pilot is  
11 to test a new technology or process that could provide a benefit to the ERCOT market. Without  
12 operational experience, the specific protocol changes needed to incorporate new technologies or  
13 processes may be uncertain. TESA noted that the rule gives ERCOT broad discretion in what  
14 should be evaluated in a pilot, and that it may so happen that some technologies or processes do  
15 not provide the expected benefits, which is the reason for doing a pilot project in the first place.  
16 ERCOT should not be limited in what it can evaluate in a pilot.

17  
18 EMMT stated that a "pilot" project would put ERCOT in the position of having to determine  
19 winners and losers by choosing one technology over another and questioned how this would  
20 reconciled with the non-discriminatory requirement in PURA. EMMT also stated that other  
21 significant questions should be explored, such as the size limit and timing of a pilot, and how the  
22 impacts of a project on real-time pricing will be accounted for and support long-term resource  
23 adequacy plans. EMMT commented that if ERCOT were to undertake pilot activities, it would

1 be competing with market participants to provide different services. TESA disagreed and stated  
2 that EMMT misunderstood the concept of ERCOT conducting a pilot project. In this case,  
3 countered TESA, ERCOT is simply providing a platform for new technologies and services to  
4 operate so that new protocol revisions can be appropriately considered.

5

6 Sierra Club recommended that the rule be limited in duration and scope in order to limit costs  
7 passed through to consumers, and that any pilot projects utilize a RFP process to promote  
8 competition and allow multiple vendors to participate. TESA stated that Sierra Club's  
9 suggestion is inconsistent with the proposed rule. TESA commented that a pilot would be open  
10 to any entity that could participate, and an RFP process is not appropriate since the pilot does not  
11 require a purchase to be made by ERCOT. AES recommended that the rule give ERCOT the  
12 authority to approve pilots which may be limited in scale or scope rather than requiring that  
13 pilots be temporary. AES also commented that the boundaries of a specific pilot should be  
14 determined after the nature of the pilot, the pilot's objectives, and the pilot's potential impact to  
15 the ERCOT system have been considered. TIEC responded that AES's recommendation  
16 advocates long-term market participation on an uneven playing field.

17

18 EDF supported the rule, and stated that the current market prevents business from taking  
19 advantage of opportunities in Texas if they do not fit easily within the current protocol structure.  
20 EDF stated that the proposed rule will help ERCOT investigate new mechanisms and  
21 technologies to advance innovation in the utility sector and will help alleviate the capacity  
22 crunch facing Texas. EDF also noted that pilot projects should create positive impacts on local

1 economies by giving Texas a reputation of being open and accessible while stimulating job  
2 creation and growth.

3

4 *Commission Response*

5 **The commission agrees that “services” should be included in the scope of projects that may  
6 be considered for a pilot. Services under a pilot project may be considered from any  
7 market participant and could lead to benefits for the ERCOT market. The commission  
8 disagrees with TIEC that only “services” should be included in a pilot project. As  
9 explained above, the commission does not believe that a pilot project for a specific  
10 technology will be unreasonably discriminatory. Rather, the limited nature of a pilot  
11 project will minimize any potential disruptions to the transmission system and wholesale  
12 market. The costs and benefits for any pilot project will be evaluated by ERCOT staff,  
13 stakeholders, and, ultimately, the ERCOT Board prior to approval of a pilot project.**

14

15 **The commission disagrees with Sierra Club that there should be a request for proposals  
16 (RFP) process to solicit multiple vendors. Any entity that can participate in a pilot project  
17 will be free to do so within the prescribed scope set by the project. The commission also  
18 disagrees with AES that pilot projects should not be of limited duration. The purpose of a  
19 pilot project is to gain information and determine whether there should be permanent  
20 changes made to ERCOT protocols. Pilot projects themselves are not intended to create  
21 permanent operating structures. The commission agrees with EDF’s statements that use of  
22 pilot projects will enhance Texas’ reputation of being open and accessible while stimulating  
23 job creation and growth.**

1

2 ***Transition from pilot project***

3 TESA expressed concern that granting pilot participants exemptions from certain protocols for a  
4 specific time period may not allow enough time for the appropriate protocol changes to be in  
5 place at the end of the pilot period to enable a seamless integration of storage devices or other  
6 technologies into the market. TESA proposed language that would allow a successful pilot  
7 project to operate until any permanent protocols changes needed to incorporate the project into  
8 ERCOT's operations could be approved. NAPP supported a process to transition a temporary  
9 pilot into a full service operation under approved protocols. AES stated that a gap between the  
10 expiration of the pilot project and approval of permanent market changes could discourage pilot  
11 participation and agreed that the rule should provide approved pilot projects with a plan to  
12 address any potential gap. Chamisa stated that it did not oppose the recommendations made by  
13 TESA and NAPP.

14

15 ERCOT agreed that a successful pilot project should result in permanent changes to the protocols  
16 so that the new resource, technology, service, or process can be fully integrated into the market.  
17 However, ERCOT expressed concern that market participants and the ERCOT Board understand  
18 the standard for when a pilot project has been deemed successful. ERCOT proposed amending  
19 the rule to add a clarification on the criteria and reporting mechanism for the successful  
20 completion of a pilot project in the proposal of a pilot project to the ERCOT Board.

21

22 Public Citizen stated that it would be unfair to market participants that invested considerable  
23 time in a pilot if there are no changes to the market rules after it is determined that the pilot has

1 benefit to the market. Public Citizen also commented that it is unclear as to whom ERCOT  
2 should inform regarding the results of a pilot project, and suggested language to inform the  
3 ERCOT Board and market participants of possible market modifications resulting from a pilot.

4  
5 *Commission Response*

6 **The commission recognizes the desire of participants in a pilot project to have the**  
7 **opportunity to continue with the project after the pilot has ended. However, the**  
8 **commission regards the initial “success” of a pilot project as the ability to gain useful**  
9 **operational information and ultimately, to make a decision on whether changes should be**  
10 **made to ERCOT’s rules. Only when these objectives have been met can ERCOT make the**  
11 **decision as to whether a pilot project should be transitioned to full operation within the**  
12 **market. It is not necessary for an adopted pilot project’s criteria to contain a path for the**  
13 **transition from pilot project status before it is determined if there should be permanent**  
14 **changes to ERCOT’s rules as a result of the pilot project. In this respect, the commission**  
15 **agrees with ERCOT and has added a provision concerning criteria and reporting**  
16 **mechanisms for moving forward with rule changes based on a pilot project.**

17  
18 **If it is determined that rule changes should be made based on the information obtained**  
19 **from a pilot project and that the participants in a pilot can operate successfully in the**  
20 **ERCOT market, ERCOT should transition the participants from the pilot project. This**  
21 **process should be implemented on a case-by-case basis, and therefore the rule should not**  
22 **prescribe a specific transition process.**

23

1 ***Cost of Pilot Projects***

2 TIEC stated that the market should not have to pay for the research and development of new  
3 technologies and commented that there is no limit on the cost of the pilot project, except  
4 potentially by the requirement to obtain ERCOT Board approval. TIEC proposed that the costs  
5 associated with a pilot project should be paid for by the participants in the pilot project. EMMT  
6 questioned who would pay for the ERCOT staff time devoted to a research or pilot project.  
7 ERCOT noted that every pilot project will have a different scope and purpose, therefore costs  
8 will vary. If a pilot participant meets the responsibilities and performance criteria for the pilot,  
9 then the participant deserves to be compensated for those services that benefit the ERCOT  
10 system. ERCOT recommended that pilot implementation costs be allocated under the System  
11 Administration Fee. ERCOT noted that the ERCOT Board would have the responsibility of  
12 deciding whether potential costs outweigh the benefits of any pilot project.

13

14 TESA disagreed with TIEC's proposal and stated that ERCOT will not fund new technologies;  
15 instead, the funding of individual projects is up to the investor in the project. TESA noted that  
16 ERCOT is active in stakeholder processes where changes to the protocols and other rules are  
17 discussed. TESA contended that ERCOT's costs with a pilot would be related to essentially the  
18 same functions. TESA argued that TIEC's proposal would create additional costs and  
19 uncertainties, which could discourage potential pilot participants and impede the integration of  
20 advanced technologies and improved processes in the ERCOT market. AES agreed with TESA,  
21 and commented that the consideration of the near-term costs by TIEC ignores benefits, such as  
22 ERCOT experience and information gained from a pilot project. AES also questioned whether  
23 costs and risks should be included in a rule that will apply to all pilots, rather than considerations

1 of specific proposals and potential appeals to the commission. The determination of who pays  
2 for what costs should be part of each pilot proposal.

3

4 *Commission Response*

5 **The costs to an entity to participate in a pilot project will be borne by that entity.**  
6 **Concerning costs to ERCOT for a pilot project, the ERCOT Board will consider costs**  
7 **along with benefits when considering the approval of the pilot project and can determine**  
8 **whether the costs are appropriate. ERCOT may compensate pilot project participants for**  
9 **services that benefit the ERCOT system. The Commission expects that the details of these**  
10 **costs would be part of the scope of any pilot project proposed by ERCOT staff.**

11

12 **In this rulemaking, the commission is not addressing the recovery of ERCOT's costs for a**  
13 **pilot project. Most types of costs incurred by ERCOT are recovered through its system**  
14 **administration fee. However, ERCOT has the discretion to impose user fees, subject to**  
15 **commission review, pursuant to §25.363(f) (relating to ERCOT Budget and Fees).**

16

17 *Requirement to Participate in Pilot Projects*

18 ConocoPhillips commented that participation in a pilot project should be voluntary for  
19 compressed air energy storage (CAES) projects and should not be a prerequisite for  
20 interconnection or operation in ERCOT. ConocoPhillips requested that the proposed rule  
21 specifically exclude CAES from the pilot project requirement. Chamisa agreed that a pilot  
22 project should not be a condition for any technology that can meet existing ERCOT rules such as  
23 CAES. Chamisa recommended clarifying the proposed rule so that a pilot project should not be

1 imposed as a condition or serve to delay any resource, technology or process that meets current  
2 ERCOT requirements; ERCOT agreed. AES supported Chamisa's proposed language, and  
3 stated that the language would help clarify that participation in a pilot project is voluntary for any  
4 resource that complies with then-existing ERCOT rules and would discourage attempts to delay  
5 ERCOT rule changes that do not depend on a pilot project's outcome. TESA also noted that the  
6 pilot process should be voluntary.

7

### 8 *Commission Response*

9 **The commission agrees with the commenters that pilot projects should be voluntary and**  
10 **that no entity should be forced or required to participate in a pilot project. If an entity can**  
11 **participate in the ERCOT market without rule changes, then that entity can do so**  
12 **immediately without being required to participate in a pilot project. However, the**  
13 **commission modifies the rule to make this intent explicit.**

14

### 15 *Review of Pilot Projects*

16 NRG supported the proposed rule and stated that requiring ERCOT Board approval on the scope  
17 and purpose of any pilot gives the ERCOT Board the opportunity to prudently consider  
18 information prior to approving a pilot project; ERCOT Board decisions relating to a pilot project  
19 could be appealed to the commission. This will provide a safeguard to ensure that pilots do not  
20 impose undue costs on other market participants.

21

22 EnerNOC recommended that ERCOT staff consult with market participants as it develops  
23 proposed pilot projects. TESA noted that the provision of "consultation with affected market



1 participants” could be construed to require that the proposal be subject to the ERCOT  
2 stakeholder process and proposed to clarify the intent as “potential market participants.” TIEC  
3 disagreed and stated that since the market will pay for the costs of any pilot project, market  
4 participants, particularly consumers, are entitled the opportunity to weigh in on the merits, risks,  
5 and costs of a pilot project. Also, TIEC noted that the ERCOT Board relies on the technical  
6 expertise of the Technical Advisory Committee, and this expertise should be applied to the  
7 project before it is presented to the ERCOT Board. TIEC recommended that the current  
8 language be retained and a formal process for reviewing a pilot project be added to the protocols.

9

10 ERCOT stated that the proposed rule balances the need for ERCOT to have the legal authority to  
11 undertake pilot projects with the appropriate safeguards to ensure that stakeholders have ample  
12 opportunities to make comments and suggestions during the pilot project approval process. This  
13 is done by requiring that ERCOT staff consult with affected market participants and commission  
14 staff designated by the executive director, and that the ERCOT Board of Directors approve any  
15 pilot project, which could then be appealed to the commission for final review. ERCOT stated  
16 that the process provided by the proposed amendments ensures every interested party the right to  
17 review a pilot project proposal and challenge such proposal before commencement of the pilot.  
18 ERCOT agreed with TESA that a pilot should not go through the normal stakeholder process, but  
19 believed that stakeholders should have the opportunity to review and comment on any proposal.  
20 ERCOT proposed modification to the rule language to allow for stakeholder comment.

21

22 *Commission Response*

1 **The commission agrees with ERCOT that stakeholders should be able to provide input on**  
2 **the review of any pilot project. The knowledge and experience of market participants**  
3 **could help to improve a pilot project by identifying potential issues involved with the pilot**  
4 **project and help focus the pilot project on the specific issues it is intended to address. The**  
5 **commission adopts ERCOT's proposed language and amends the rule to ensure that there**  
6 **is an opportunity for stakeholder input before Board approval of any pilot project. The**  
7 **commission disagrees with TESA that "consultation with affected market participants"**  
8 **implies that a pilot project must go through the formal stakeholder process and rejects its**  
9 **proposed language amendments.**

10

#### 11 ***Pilot project approval process***

12 TESA noted that the proposed language to establish requirements for the pilot project refers to  
13 the proposal from ERCOT staff rather than referring to the project approved by the ERCOT  
14 Board. TESA proposed an amendment to clarify that the criteria refers to the pilot project  
15 approved by the ERCOT Board; ERCOT agreed. TESA also proposed language requiring the  
16 governing board to develop procedures for the development and approval of pilot projects by  
17 July 31, 2012.

18

#### 19 ***Commission Response***

20 **The commission agrees with TESA's proposal that the criteria should apply to the pilot**  
21 **project approved by the ERCOT Board rather than that proposed by ERCOT staff, and**  
22 **makes the appropriate change to the rule. The commission declines to require ERCOT to**

1 **develop pilot project procedures by a certain time. The commission is confident that**  
2 **ERCOT will proceed with due speed to develop those procedures.**

3

4 All comments, including any not specifically referenced herein, were fully considered by the  
5 commission. The commission has changed the proposed amendments consistent with the  
6 discussion above and for the purpose of clarifying its intent.

7

8 These amendments are adopted under the Public Utility Regulatory Act, Texas Utilities Code  
9 Annotated §14.002 (West 2007 and Supp. 2011) (PURA), which provides the commission with  
10 the authority to make and enforce rules reasonably required in the exercise of its powers and  
11 jurisdiction, and specifically, PURA §39.151, which grants the commission oversight and review  
12 authority over independent organizations such as ERCOT.

13

14 Cross Reference to Statutes: PURA §§14.002 and 39.151.

1 (a) - (j) (No change.)

2 (k) Pilot Projects

3 (1) ERCOT may conduct pilot projects to provide a temporary platform to evaluate  
4 resources, technologies, services, and processes that demonstrate the potential to  
5 advance the operational and market functions of the ERCOT system. The pilot  
6 projects will allow ERCOT to validate performance claims of alternative  
7 technologies, evaluate the extent to which new technologies or processes can  
8 provide services that comply with federal and state reliability standards, and  
9 review how resources perform in various operational and market scenarios. As  
10 part of a pilot project, ERCOT may grant temporary exceptions from ERCOT  
11 rules, as necessary to effectuate the purposes of the pilot project. ERCOT may  
12 use information gained from pilot projects to inform the development of  
13 permanent changes to ERCOT rules.

14 (2) Process for Development and Approval of Pilot Projects. ERCOT may conduct a  
15 pilot project upon approval of the scope and purposes of the pilot project by the  
16 governing board of ERCOT. Proposals for approval of pilot projects shall be  
17 made to the governing board only by ERCOT staff, after consultation with  
18 affected market participants and commission staff designated by the executive  
19 director. The ERCOT governing board shall ensure that there is an opportunity  
20 for adequate stakeholder review and comment on any proposed pilot project.  
21 Pilot project proposals ~~presented to~~ approved by the ERCOT governing board  
22 shall include:

23 (a) The scope and purposes of the pilot project;

1 (b) Designation of temporary exceptions from ERCOT rules that ERCOT  
2 expects to authorize as part of the pilot project;

3 (c) Criteria and reporting mechanisms to determine whether and when  
4 ERCOT should propose changes to ERCOT rules based upon results of a pilot  
5 project;

6 ~~(e)~~(d) An estimate of costs ERCOT will incur attributable to the pilot project;  
7 and

8 ~~(d)~~(e) An estimated date of completion for the pilot project.

9 (3) Participation in a pilot project shall not be required as a condition to the  
10 deployment of any resource, technology, or process that complies with existing  
11 ERCOT rules. The existence of a pilot project does not prohibit any market  
12 participant from proposing changes to ERCOT rules that are not dependent on the  
13 outcome of the pilot project.

14 ~~(3)~~(4) A decision of the ERCOT governing board approving a pilot project pursuant to  
15 this subsection constitutes "ERCOT conduct" for purposes of appeal to the  
16 commission pursuant to §22.251 of this title (relating to Review of Electric  
17 Reliability Council of Texas (ERCOT) Conduct).

1           This agency hereby certifies that the adoption has been reviewed by legal counsel and  
2 found to be a valid exercise of the agency's legal authority. It is therefore ordered by the Public  
3 Utility Commission of Texas that §25.361, relating to the Electric Reliability Council of Texas,  
4 are hereby adopted with changes to the text as proposed.

5  
6           **ISSUED IN AUSTIN, TEXAS ON THE \_\_\_\_\_ DAY OF \_\_\_\_\_ 2012.**  
7

8   **PUBLIC UTILITY COMMISSION OF TEXAS**  
9

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13   **DONNA L. NELSON, CHAIRMAN**  
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18   **KENNETH W. ANDERSON, JR., COMMISSIONER**  
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23   **ROLANDO PABLOS, COMMISSIONER**