



**Date:** April 12, 2011  
**To:** Board of Directors  
**From:** John Dumas, ERCOT Director of Wholesale Markets Operations  
**Subject:** Recommendation on Board-Approved Point-to-Point (PTP) Obligations for Balance of Year Auction

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** April 19, 2011

**Agenda Item No.:** 16b

**Issue:**

Whether to approve the PTP Obligations for the balance of year auction as recommended by ERCOT staff.

**Background/History:**

Pursuant to paragraphs 4 and 5 of Nodal Protocol Section 7.5.1, Nature and Timing, the ERCOT Board of Directors (Board) must approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month.

Paragraphs 4 and 5 of Protocol Section 7.5.1, Nature and Timing, state the following:

- (4) ERCOT shall conduct Congestion Revenue Rights (CRR) Auctions with the frequency, on the dates, and for the terms specified as follows:
  - (a) PTP Options, PTP Obligations, and Flowgate Rights (FGRs) in monthly auctions for one-month terms beginning with the month prior to the Texas Nodal Market Implementation Date.
  - (b) ERCOT shall conduct a monthly CRR Auction during the month preceding the month during which the CRRs being auctioned are effective. ERCOT shall publish a calendar of relevant auction dates each year for the following year's activities.
  - (c) Six monthly CRR Auctions must be completed prior to initiation of the first annual CRR Auction. If six monthly CRR Auctions are completed prior to October 1, then CRR Options and ERCOT Board-approved PTP Obligations will be auctioned for the balance of the current calendar year.
  - (d) After the completion of at least six monthly CRR Auctions ERCOT shall conduct an annual CRR Auction for CRR Options and ERCOT Board-approved PTP Obligations commencing during October for the two-year period that starts on the immediately following January 1.
- (5) ERCOT shall auction the following products:



- (a) In each monthly CRR Auction: one-month strips of PTP Options, PTP Obligations, and FGRs (on any defined flowgates); and
- (b) In each annual CRR Auction:
  - (i) PTP Options in one-month strips, any specified consecutive monthly strips within the same calendar year, and annual strips;
  - (ii) PTP Obligations in one-month strips for one-month terms until the ERCOT Board approves the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points for terms longer than one month; and
  - (iii) FGRs (on any defined flowgates) in one-month strips, any specified consecutive monthly strips within the same calendar year, and annual strips.

In multi-month CRR auctions, PTP Obligations are available only for the first month unless both the source Settlement Point and the sink Settlement Point have been approved by the ERCOT Board as eligible for inclusion of a PTP Obligation for a term of longer than one month. This mitigates the risk of a Market Participant taking a risky, long-term CRR position and defaulting, causing the market to bear the default costs for a lengthy period.

PTP Obligations of terms greater than one month carry with them a significant risk of default. ERCOT can mitigate the risk of default by requiring larger amounts of collateral for each cleared PTP Obligation.

ERCOT staff respectfully recommends that the ERCOT Board approve all Settlement Points—including all Resource Nodes, all Load Zones, and all Hubs—as eligible for inclusion as a source Settlement Point or a sink Settlement Point for a PTP Obligation bid of a term longer than one month.

**Key Factors Influencing Issue:**

- Paragraphs 4 and 5 of Nodal Protocol Section 7.5.1, Nature and Timing, require Board approval of the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month.
- PTP Obligations of terms greater than one month carry with them a significant risk of default.
- ERCOT can mitigate the risk of default by requiring larger amounts of collateral for each cleared PTP Obligation.

**Alternatives:**

1. Approve the use of ERCOT staff-recommended Settlement Points as eligible sources and sinks for long term PTP Obligations as described above or as modified by the Board;



2. Reject the ERCOT staff recommendation on Settlement Points as eligible sources and sinks for long term PTP Obligations and instruct ERCOT staff to hold the balance of year auction for PTP Options with PTP Obligations available only for the first month;
3. Defer decision on the Settlement Points as eligible sources and sinks for long term PTP Obligations and instruct ERCOT to delay the balance of year auction until such decision is made.

**Conclusion/Recommendation:**

As more specifically described above, ERCOT staff respectfully recommends that the Board approve the recommended Settlement Points as eligible sources and sinks for PTP Obligations being offered for terms of longer than one month.



**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, paragraph 4(c) of Nodal Protocol Section 7.5.1, Nature and Timing, authorizes the ERCOT Board of Directors (Board) to approve the offering of Point-to-Point (PTP) Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for terms of longer than one month;

WHEREAS, the Board deems it desirable and in the market's best interest to approve the offering of PTP Obligations for specified source Settlement Points and sink Settlement Points prior to those PTP Obligations being offered for the balance of the current calendar year;

WHEREAS, the Board intends to reconsider which specified source Settlement Points and sink Settlement Points should be offered in the annual CRR Auction;

THEREFORE BE IT RESOLVED, that the Board hereby authorizes ERCOT staff to offer PTP Obligations for the balance of the current calendar year for all Settlement Points, including all Resource Nodes, all Load Zones, and all Hubs, and

THEREFORE BE IT FURTHER RESOLVED, that the Board hereby directs ERCOT staff to recommend which specified source Settlement Points and sink Settlement Points should be offered in the annual CRR Auction.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its April 19, 2011 meeting, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of April, 2011.

\_\_\_\_\_  
Bill Magness  
Corporate Secretary