

ERCOT Houston (LMP-EEI)
ERCOT North (LMP-EEI)
ERCOT Northeast (LMP-EEI)
ERCOT South (LMP-EEI)
ERCOT West (LMP-EEI)

Delivery Point Language- Discussion of Optional Provisions

Version 1.2

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ERCOT DELIVERY POINT LANGUAGE – DISCUSSION OF OPTIONAL PROVISIONS

A. Background

The Electric Reliability Council of Texas (“ERCOT”) is a non-profit corporation responsible in most of Texas for overseeing the transmission of electricity and monitoring and enforcing industry reliability standards for grid and utility operations. ERCOT also manages financial settlement for hundreds of market participants in Texas’ deregulated wholesale bulk power and retail electric market. ERCOT is regulated by the Public Utility Commission of Texas (“PUCT”) and subject to oversight by the Texas Legislature.

In July 2002, total local congestion costs in ERCOT exceeded the expectations of stakeholders and the PUCT. In order to directly assign local congestion costs, in September 2003, PUCT issued Order 26376 requiring ERCOT to replace its current zonal market structure with a nodal market design by late 2006. A nodal market structure is expected to improve efficiency and provide more consistency between its market and system operations as well as more accurate information.

ERCOT formed a Texas Nodal Team to redesign the market consistent with a nodal market structure. ERCOT’s Board of Directors approved a number of white papers introduced by the Texas Nodal Team establishing guidelines for developing the Texas Nodal Market protocols. Information regarding ERCOT’s contemplated transition to a nodal market structure is available in a document entitled “ERCOT Nodal Transition Plan” (dated November 3, 2005). In addition, several presentations related to ERCOT’s market redesign are available, including; “Today’s ERCOT in Plain English” dated September 26, 2005; “Wholesale Market Redesign Update” dated December 13, 2005; and “State of the Market & What’s Ahead at ERCOT” dated February 10, 2006. These documents can be found on ERCOT’s website (www.ercot.com).

Although a cost-benefit study has already been conducted that provides an analysis of costs and benefits for the period through 2014, additional studies are still ongoing to evaluate expected market benefits and estimate marginal costs. The current anticipated launch date for ERCOT’s Wholesale Market Redesign is January 1, 2009.

B. Explanation of Optional ERCOT Delivery Point Language

The optional ERCOT Delivery Point language is an attempt to provide clarity and certainty around the delivery obligations in a bilateral transaction if and when a nodal market structure is introduced in ERCOT based on the information that is available at this time. It is possible that there will be further changes as the development of the nodal market structure progresses; however, this optional language may give parties a greater degree of comfort to enter into longer term transactions in ERCOT. Just like the other optional provisions developed by the EEI Drafting Committee, this language is simply an option that parties may elect to use.

In order to assist in understanding the language, below are examples of the meanings of “a majority of” and “a plurality of” as used in the optional language:

1. “A majority of ...”: The Transaction Confirmation states that the Delivery Point is the Houston Congestion Zone. During the Delivery Period of such Transaction, ERCOT redrafts the boundaries of the Houston Congestion Zone and consequently more than 50% of the 345 kV transmission buses originally in the Houston Congestion Zone are now officially located in the South Congestion Zone. Therefore, the South Congestion Zone shall be deemed the Delivery Point for the remainder of the Delivery Period.
2. “A plurality of...”: The Transaction Confirmation states that the Delivery Point is the Houston Congestion Zone. During the Delivery Period of such Transaction, ERCOT redrafts the boundaries of the

Houston Congestion Zone and consequently with respect to the 345 kV transmission buses originally in the Houston Congestion Zone: a) 40% are now officially located in the South Congestion Zone; b) 30% are now officially located in the North Congestion Zone; and c) 30% are now officially located in the Northeast Congestion Zone. Given that the South Congestion Zone contains more original 345 kV Houston Congestion Zone transmission buses than any other Zone (i.e., 40%), the South Congestion Zone shall be deemed the Delivery Point for the remainder of the Delivery Period.

C. Minor Changes to the ERCOT Delivery Point Language

Subsequent to the publication of the ERCOT Delivery Point language on April 20, 2006, there have been a number of developments relating to ERCOT's contemplated transition to a zonal market. In connection with these developments, the EEI Contract Drafting Committee is making the following changes to certain Definitions:

1. ERCOT NORTH (LMP-EEI) Delivery Point Definition: A minor modification to this Definition has been made in order to reflect that there are two Venus 345-kV buses per the ERCOT Protocols and give additional clarity. It is expected that both Venus buses will remain in the ERCOT North Zone.
2. ERCOT South (LMP-EEI) Delivery Point Definition: Given that it is likely that the South Texas Project 345-kV bus will soon be considered part of the ERCOT Houston Zone rather than the ERCOT South Zone, the previous reference to the South Texas Project 345-kVbus in the ERCOT South Zone Delivery Point Definition has been replaced with a reference to the "Marion 345-kV bus". This change should provide the market with additional certainty regarding South Zone transactions.
3. ERCOT West (LMP-EEI) Delivery Point Definition: Given that the market suggests that by January 1, 2008, the Graham 345 kV bus is likely to migrate into the North Zone, the reference to the Graham 345 kV bus has been replaced with a reference to the "Morgan Creek 345 kV bus". This change should provide the market with the additional certainty regarding West Zone transactions.

D. Interpretations and Clarifications to ERCOT Delivery Point Language

The following interpretations are intended to clarify, eliminate uncertainty and provide guiding principles with respect to the ERCOT Delivery Point Language:

1. Elimination of Congestion Zone boundaries: It is contemplated that any elimination of a Congestion Zone during a Delivery Period would be considered a redrafting of the boundaries for purposes of the ERCOT Delivery Point language. This concept appears in the numbered Paragraph 1 of each ERCOT Delivery Point Definition.
2. Trading Hub as the Delivery Point: In order to give market participants a greater degree of comfort in entering into longer term transactions, further clarity has been requested with respect to the designation of a Trading Hub as a Delivery Point referenced in the numbered Paragraph 2 of each ERCOT Delivery Point Definition. In this regard, it is the expectation of market participants that when ERCOT implements a congestion management system that includes LMP for the real-time market, the Delivery Point shall become the Trading Hub which is determined according to the concentration formula set forth in Paragraph 2 at the time of such implementation, and that such Trading Hub will remain the Delivery Point for such transaction for the remainder of the Delivery Period.
3. Clarification of the term "Trading Hub": In order to be consistent with the ERCOT Nodal Protocols, the term "Trading Hub" as referenced in the numbered Paragraph 2 of each ERCOT Delivery Point Definition should be understood to mean a "Hub" as set forth in the ERCOT Nodal Protocols.

4. **Product scheduling and settlement:** This product is intended to be scheduled day-ahead for settlement in the real-time market.