

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

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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](http://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.