May 31, 2007

<u>Sent Via E-Mail and First-Class U.S. Mail</u>

Ms. Maureen E. Long
Standards Process Manager
The North American Electric Reliability Corporation
Princeton Forrestal Village
115 Village Boulevard
Princeton, New Jersey 08540-5731

Subject: Request for Interpretation of NERC Standard BAL-003-0 Requirements R2, R 2.2, R5, and R5.1

Dear Ms. Long:

Pursuant to the North American Electric Reliability Corporation (NERC) Reliability Standards Development Procedure (RSDP),[1] the Electric Reliability Council of Texas, Inc. (ERCOT) respectfully requests an interpretation of the above-referenced standard. ERCOT specifically requests clarification that a Balancing Authority (BA) is entitled to use a variable bias value as authorized by Requirement R2.2, even though Requirement R5 seems not to account for the possibility of variable bias settings.

Four specific requirements under NERC Standard BAL-003-0 are relevant to this request:

- NERC Standard BAL-003-0, Requirement R2 states: "Each Balancing Authority shall establish and maintain a Frequency Bias Setting that is as close as practical to, or greater than, the Balancing Authority's Frequency Response. Frequency Bias may be calculated several ways ...."

- Requirement R2.2 further states: "R2.2: The Balancing Authority may use a variable (linear or non-linear) bias value, which is based on a variable function of Tie Line deviation to Frequency Deviation. The Balancing Authority shall determine the variable frequency bias value by analyzing Frequency Response as it varies with factors such as load, generation, governor characteristics, and frequency."

- Requirement R5 states: "Balancing Authorities that serve native load shall have a monthly average Frequency Bias Setting that is at least 1% of the Balancing Authority's estimated yearly peak demand per 0.1 Hz change."

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[1] Version 6.0, adopted by the NERC Board of Trustees on Nov. 1, 2006, at 26-27.

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- Requirement R5.1 further states: "Balancing Authorities that do not serve native load shall have a monthly average Frequency Bias Setting that is at least 1% of its estimated maximum generation level in the coming year per 0.1 Hz change."

ERCOT submits that, if a BA uses a variable bias in conformance with R2.2, it would violate R5 if the analysis results in any value less than 1% of its yearly peak demand (or maximum generation). R2.2 is a legitimate option sanctioned by NERC and by the Federal Energy Regulatory Commission, and ERCOT sets its bias using this method. We would respectfully further assert that R2.2 is only viable if NERC interprets R5 to only apply to BAs that use a fixed bias setting. The correct corresponding measure for a variable bias setting would be no less than 1% of the BA's estimated peak (or maximum generation) for the period in which the bias setting is active.

ERCOT's requested interpretation is consistent with a previous NERC Reliability Subcommittee (RS) interpretation, as noted in the RS's January 2003 minutes:

> Resources Subcommittee Meeting Minutes
> January 29-31, 2003
> Variable Non-Linear Bias
> During the last subcommittee meeting, the following
> motion was passed: The Resources Subcommittee
> interprets Standard 1.1.4, "Control Area's monthly average
> Frequency Bias Setting must be at least 1% of the Control
> Area's estimated yearly peak demand per 0.1 Hz change"
> requirement to be applicable to all Control Areas that
> contain load and that use bias settings. The subcommittee
> discussed and interpreted last meeting's motion to address
> only fixed bias, not variable bias. Variable bias needs to be
> addressed.
>
> After discussion, Don Badley made a motion as follows:
> The Resources Subcommittee interprets Standard 1.1.4 for
> Control Areas utilizing variable bias, the Control Area's
> average Bias Setting for a month must be at least 1% of the
> Control Area's estimated peak load for that month (or 1%
> of peak generation for a generation only Control Area
> forecast for that month). The motion was approved.

An interpretation under NERC's RSDP is appropriate because the lack of a variable-bias option under Requirement R5 appears to be an oversight, and the RSDP specifically provides that interpretations are appropriate to identify clarifications that correct oversights in the Standards until such time as the standard at issue can be "revised through the normal process ... to incorporate the clarifications provided by the interpretation." This interpretation is important to ERCOT and should be important to any BA using a variable bias setting, because an incorrect interpretation would force

ERCOT to abandon its longstanding and approved practice of using a variable setting, without any corresponding improvement in reliability.

For the foregoing reasons, ERCOT respectfully requests an interpretation that clarifies the requirements of this Standard.

Sincerely,

H. Steven Myers
ERCOT
Manager, Operating Standards