

NOTICE DATE: September 15, 2006

NOTICE TYPE: PRR/SCR

SHORT DESCRIPTION: ERCOT will implement SCR 747 (Removal of Price Administration for Zonal Congestion)

INTENDED AUDIENCE: QSE Operation and Settlement Personnel

DAY AFFECTED: September 28, 2006

LONG DESCRIPTION:

In the Real Time Balancing Energy Market, the Scheduling Pricing and Dispatch System (SPD) utilizes the Price Administration procedure to adjust the pricing solution when a system constraint is violated. One of the system constraints that trigger Price Administration in the current system is the violation of any Commercially Significant Constraint (CSC).

One economic drawback to Price Administration when triggered by a CSC violation alone is that the resulting MCPs do not accurately indicate the pricing relationship associated with the re-dispatch to solve zonal congestion. On June 9, 2005, ERCOT implemented Penalty Factors that limit the Shadow Prices for CSC Congestion to \$2500. On December 13, 2005 the ERCOT Board approved SCR 747, which updates SPD to eliminate CSC violations as a trigger for the Price Administration process. The new Price Administration process is illustrated in the attached Market Bulletin # 30 which is an update to Market Bulletin #20.

Also, to ensure the goals of SCR 747 are met, ERCOT is making a small change to the penalty factor associated with the "Ramp Rate Constraint" from the current value of \$1001 to \$1400. This penalty factor change was proposed and approved at the August WMS meeting.

Two examples of how the MCPs and zonal shadow prices will be affected by this change are illustrated in the attached power point file.

ADDITIONAL INFORMATION: The Market Notice describing the Penalty Factors implemented on June 9, 2005 is attached for reference.

CONTACT: If you have any questions, please contact your ERCOT Account Manager. You may also call the general ERCOT Client Relations phone number at (512) 248-3900 or contact ERCOT Client Relations via e-mail at ClientRelations@ercot.com.

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