

Date: July 10, 2012
To: ERCOT Board of Directors
From: Kenan Ogelman, Technical Advisory Committee (TAC) Chair
Subject: Methodology for Setting Maximum Shadow Prices for Network and Power Balance Constraints

Issue for the ERCOT Board of Directors

ERCOT Board of Directors (ERCOT Board) Meeting Date: July 17, 2012

Agenda Tab No.: 8.3

Issue:

Protocol 6.5.7.1.11, Transmission Network and Power Balance Constraint Management, requires that ERCOT determine the methodology for setting maximum Shadow Prices for network constraints and for the power balance constraint and that after TAC recommendation, the ERCOT Board approves the final methodology.

Background/History:

Paragraph (4) of Nodal Protocol 6.5.7.1.11, Transmission Network and Power Balance Constraint Management, states that:

ERCOT shall determine the methodology for setting maximum Shadow Prices for network constraints and for the power balance constraint. Following review and recommendation by TAC, the ERCOT Board shall review the recommendation and approve a final methodology.

On June 20, 2012, TAC held a special meeting to provide a timely response to the Commission's request to develop a recommendation on changes to the Power Balance Penalty Curve. TAC voted to recommend the Power Balance Penalty Curve be modified to accommodate a proposed increase of the System Wide Offer Cap to \$4,500 as described in the table below:

MWh Violation	Price/MWh
<5	\$250
5 < to ≤ 10	\$300
10 < to ≤ 20	\$400
20 < to ≤ 30	\$500
30 < to ≤ 40	\$1,000
40 < to ≤ 50	\$2,250
50 < to ≤ 100	\$3,000
100 < to ≤ 150	\$3,500
150 < to ≤ 200	\$4,000
200 or more	\$4,501

The June 20, 2012 TAC vote passed with 20 in favor and nine opposing votes from the Municipal (3), Cooperative (4), and Consumer (2) Market Segments. There were no abstentions.

On June 28, 2012, TAC unanimously voted to recommend approval of the revised document, Methodology for Setting Maximum Shadow Prices for Network and Power Balance Constraints, which reflected the updated Power Balance Penalty Curve from the June 20th TAC meeting.

The revised ERCOT Business Practice, Setting the Shadow Price Caps and Power Balance Penalties in Security Constrained Economic Dispatch, to reflect the TAC recommendation to the Board is included as Attachment A.

Key Factors Influencing Issue:

TAC reviewed the recommendations before them and voted to recommend to the ERCOT Board the approval of the ERCOT methodology as described herein.

Conclusion/Recommendation:

As more specifically described above, TAC respectfully recommends that the ERCOT Board revise the ERCOT Business Practice, Setting the Shadow Price Caps and Power Balance Penalties in Security Constrained Economic Dispatch, as described in Attachment A.

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

WHEREAS, paragraph (4) of Protocol Section 6.5.7.1.11, Transmission Network and Power Balance Constraint Management, requires the Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) approval of a final methodology for setting maximum Shadow Prices for network constraints; and

WHEREAS, the ERCOT Board deems it desirable and in ERCOT's best interest to approve revised ERCOT Business Practice, Setting the Shadow Price Caps and Power Balance Penalties in Security Constrained Economic Dispatch, as described in Attachment A.

THEREFORE be it RESOLVED, that the ERCOT Board hereby approves the revised ERCOT Business Practice, Setting the Shadow Price Caps and Power Balance Penalties in Security Constrained Economic Dispatch, as described in Attachment A.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its July 17, 2012 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of July, 2012.

Vickie G. Leady
Assistant Corporate Secretary