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| OBDRR Number | [026](http://www.ercot.com/mktrules/issues/OBDRR026) | OBDRR Title | Change Shadow Price Caps to Curves and Remove Shift Factor Threshold |
| Date of Decision | March 24, 2021 |
| Action | Tabled |
| Proposed Effective Date | To be determined |
| Priority and Rank Assigned | To be determined |
| Other Binding Document Requiring Revision  | Methodology for Setting Maximum Shadow Prices for Network and Power Balance Constraints |
| Supporting Protocol or Guide Section(s) / Related Documents | Protocol Section 6.5.7.1.11, Transmission Network and Power Balance Constraint Management |
| Revision Description | This Other Binding Document Revision Request (OBDRR) makes certain congestion management changes for contingency constraints. No base case or Generic Transmission Constraint (GTC) pricing is affected by this OBDRR.This OBDRR:1. Changes the default Shadow Price caps to curves. The change lowers the value for small violations and raises the value for large violations; and
2. Removes the Shift Factor threshold as a factor for determining eligibility for Security-Constrained Economic Dispatch (SCED) consideration. Currently, a constraint is only eligible for resolution by SCED if at least one Resource exists that has a Shift Factor of greater than 2% or less than negative 2%.

This OBDRR also proposes minor cleanup items and simplifications to Section 3, Elements for Methodology for Setting the Network Transmission System-Wide Shadow Price Caps.  |
| Reason for Revision |  Addresses current operational issues. Meets Strategic goals (tied to the [ERCOT Strategic Plan](http://www.ercot.com/content/news/presentations/2013/ERCOT%20Strat%20Plan%20FINAL%20112213.pdf) or directed by the ERCOT Board). Market efficiencies or enhancements Administrative Regulatory requirements Other: (explain)*(please select all that apply)* |
| Business Case | 1) In the current design, single penalties are applied to limit the cost incurred to resolve a contingency constraint and those penalties set prices when constraints are violated (when flows exceed the transmission limit). These penalty values increase with the voltage level of the constraint. Unfortunately, these single values cause the Real-Time Market (RTM) to price a 0.1% violation of a constraint the same as it prices a 50% violation of a constraint, regardless of the actual risk to the system of such a violation. In fact, if the constraint is violated by approximately 20-25% ERCOT may implement out-of-market actions, including Load shed if necessary, to prevent cascading events.  The proposed curves recognize that the importance of a post-contingency overload increases as the overload amount increases. This OBDRR aligns the Shadow Price caps more closely with the underlying reliability risk.2) As this OBDRR refines the Shadow Price methodology, the curves will essentially provide a variable economic Shift Factor threshold at various overload amounts and thus the current arbitrary “2% rule” should be removed.  Prices are foundational to an efficient wholesale energy market. The 2% rule removes certain congestion pricing signals, eliminating the only market signal showing prospective Resource owners where to place Resources to help solve “unsolvable” congestion. It also diminishes reliability by preventing SCED from managing these constraints and compelling ERCOT to take more out-of-market actions.  |
| TAC Decision | On 3/24/21, TAC unanimously voted via roll call to table OBDRR026 and refer the issue to WMS. All Market Segments participated in the vote. |
| Summary of TAC Discussion | On 3/24/21, the sponsor reviewed the scope of changes within OBDRR026, and participants requested additional discussion at WMS.  |

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| Proposed Other Binding Document Language Revision |

# 1. Purpose

Protocol Section 6.5.7.1.11, Transmission Network and Power Balance Constraint Management, requires the ERCOT Board to approve ERCOT’s methodology for establishing caps on the Shadow Prices for transmission constraints and the Power Balance constraint. Additionally, the ERCOT Board must also approve the values (in $/MWh) for each of the Shadow Price caps.

The effect of the Shadow Price cap for transmission network constraints is to limit the cost calculated by the Security-Constrained Economic Dispatch (SCED) optimization to resolve an additional MW of congestion on a transmission network constraint to the designated maximum Shadow Price for that transmission network constraint. The effect of the Shadow Price cap for the Power Balance Constraint is to limit the cost calculated by the SCED optimization when the instantaneous amount of generation to be dispatched does not equal the instantaneous demand of the ERCOT system. In this case, the cost calculated by SCED to resolve either the addition or reduction of one MW of dispatched generation on the power balance constraint is limited to the maximum Shadow Price for the power balance constraint, which is also referred to as the Power Balance Penalty.

The maximum Shadow Prices for the transmission network constraints and the power balance constraint directly determine the Locational Marginal Prices (LMPs) for the ERCOT Real Time Market in the cases of constraint violations.

This Business Practice describes:

* the ERCOT Board approved methodology that the ERCOT staff will use for determining the maximum system-wide Shadow Prices for transmission network constraints and for the power balance constraint, and
* the ERCOT Board approved Shadow Price caps and their effective date.

# 2. Background Discussion

The term Shadow Price as used in a constrained optimization problem in economics, is usually defined as the change in the objective value of the optimal solution of the optimization problem obtained by changing each constraint, one-at-a-time, by one unit. In the SCED process the objective function to be minimized by the SCED optimization engine is the total system dispatch cost required to maintain the system power balance and to resolve congestion of the transmission network as specified in the transmission constraint input set. The term Shadow Price is used in the context of individual constraints, whether a transmission network constraints or power balance constraint. Consistent with the definition of the Shadow Price, in a minimization problem, such as the SCED, the Shadow Prices for the transmission constraints are different for each transmission constraint and they are positive $/MW amounts defined as increase of the system dispatch costs if a transmission line limit is decreased by one MW. The Shadow Price for the Power Balance constraint represents system costs for serving the last MW of load. The Power Balance Penalty can be either positive (if the system requires additional generation) or negative (if the system requires a reduction in generation). If a constraint is not binding, meaning the constraint has excess capability under the given system conditions, the Shadow Price of the constraint is $0.00/MWh. On the other hand, if the constraint is binding, meaning it is limiting because the system conditions are such that the constraint limit is exactly met by the SCED selected dispatch pattern, the constraint Shadow Price is a non-zero $/MW value and when the maximal Shadow Price (i.e. the Shadow Price cap) is reached the constraint will be violated without further increases in the constraint Shadow Price.

In the context of the SCED optimization, the Shadow Prices give rise to the application of a transmission penalty cost and a power balance penalty cost in the SCED objective function that results in an increase in the total system dispatch cost. On the other hand, the transmission network constraint Shadow Prices and the Power Balance Shadow Price directly determine the LMPs (in $/MWh) calculated in the SCED. The LMPs will be limited because of the Shadow Price cap amounts, expressed in $/MWh.

For the network transmission constraints, the Shadow Price Cap may vary for each constraint, may be a unique value applicable to all constraints, or may be values unique to subsets of the full constraint set. For the Power Balance constraint, the Shadow Price Cap may be a single value or a value given as a function of the amount of the power balance mismatch (instantaneous generation to be dispatch minus instantaneous demand) in MW.

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| ***[OBDRR020: Replace the paragraph above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***For the network transmission constraints, the Shadow Price Cap may vary for each constraint, may be a unique value applicable to all constraints, or may be values unique to subsets of the full constraint set. For the Power Balance constraint, the Shadow Price Cap is a single value. |

# 3. Elements for Methodology for Setting the Network Transmission System-Wide Shadow Price Caps

3.1 Congestion LMP Component

The LMPs at Electrical Buses are calculated as follows:

 

Where:

 is LMP at Electrical Bus *EB*

 is system lambda (Shadow Price of power balance)

 is Shift Factor for Electrical Bus *EB* for transmission *line*

 is Shadow Price for transmission *line.*

Note that the Shadow Prices for congested transmission lines are positive, otherwise they are equal zero. The Shift Factors for Electrical Buses on one side of transmission line are negative and for Electrical Buses on the other side of transmission line are positive.

The congestion component of Electrical Bus LMP is:



and it can be positive or negative depending on sign of Shift Factors. The congestion component of LMP represents a price incentive to generation units connected at that Electrical Bus to increase or decrease power output to manage network congestion. Note that only marginal units (i.e. units that are able to move, not those dispatched at min/max dispatch limits to resolve other constraints or to provide energy to the system) can participate in resolving network congestion and determining the system lambda for a particular iteration of SCED.

The optimal dispatch from both system (minimal congestion costs) and unit (maximal unit profit) prospective is determined by condition:

.

The generation unit response to pricing signal will result in line power flow reduction in amount:



These relationships are illustrated at the following figure:

3.2 Shift Factor Cutoff

Note: This Shift Factor cutoff is not related to above Shift Factor efficiency threshold used for determination of maximal Shadow Price.

Some generating units can be excluded from network congestion management by ignoring their contribution in line power flows. Note that this exclusion cannot be performed physically, i.e. all units will always contribute to line power flows according to their Shift Factors. Therefore, the Shift Factor cutoff introduces an additional approximation into line power flow modeling.

Since the effect of the Shift Factors below the cut off on the overload are ignored in the optimization, any Shift Factor cutoff will cause additional re-dispatch of the remaining generating units participating in the management of congestion on the constraint. I.e. Generation Resources with Shift Factor above cut off will have to be moved more to account for the increase in overload caused by increasing generation of an inexpensive Resource with positive Shift Factor below cut off and decreasing generation of an expensive Resource with negative Shift Factor below cut off.

The Shift Factor cutoff will cause mismatch between optimized line power flow and actual line power flow that will happen when dispatch Base Points are deployed. This mismatch can degrade the efficiency of congestion management.

The Shift Factor cutoff can reduce volume of Shift Factor data and filter out numerical errors in calculating Shift Factors. Currently the default value of Shift Factor cutoff is 0.0001 and is implemented at the EMS to reduce the amount of data transferred to MMS. Any threshold above that level will cause a distortion of congestion management process.

Any post-contingency constraint is eligible for consideration in SCED if at least one Resource or Direct Current Tie (DC Tie) has a Shift Factor for the constraint above the Shift Factor cutoff.

3.3 Default Values for the Transmission Network System-Wide Shadow Price Caps in SCED

The default Transmission Shadow Price Caps noted below will be used in SCED unless ERCOT determines that a constraint is irresolvable by SCED. The methodology for determining and resolving an insecure state within SCED (i.e. SCED Irresolvable) is defined in Protocol Section 6.5.7.1.10, Network Security Analysis Processor and Security Violation Alarm, whereas the subsequent trigger condition for the determination of that constraint’s Shadow Price Cap is described in Section 3.4, Methodology for Setting Transmission Shadow Price Caps for Irresolvable Constraints in SCED.

**Default Transmission Constraint Shadow Price Caps in SCED**

* Base Case/Voltage Violation: $9,251/MW
* N-1 Constraint Violation:
	+ From 100-102% flow on the violated Transmission Element, construct a linear curve starting at $500/MW at 100% and ending at the values below.
		- Greater than 200 kV: $4,500/MW
		- 100 kV to 200 kV: $3,500/MW
		- Less than 100 kV: $2,800/MW
	+ For flow 120% or greater on the violated Transmission Element, $9,251/MW.







3.4 Methodology for Setting Transmission Shadow Price Caps for Irresolvable Constraints in SCED

ERCOT Operations is required to resolve security violations on the ERCOT Grid as described in Protocol Section 6, Adjustment Period and Real-Time Operations, and the associated Nodal Operating Guides and ERCOT will utilize the SCED application or direct actions on the transmission network and among Generation Resources, as needed, to resolve security violations. With regard to SCED operations, if a security violation on a constraint occurs, ERCOT will determine whether or not this constraint violation should be deemed to be irresolvable by online Generation Resource Dispatch by the SCED application. ERCOT will use the methodology described in this section to determine the Shadow Price Cap for a constraint that is deemed irresolvable pursuant to Section 3.4.1, Trigger for Modification of the Shadow Price Cap for a Constraint that is Consistently Irresolvable in SCED, below. For each of these constraints this Shadow Price Cap will be used by the SCED application in place of the cap specified by Section 3.3, Values for the Transmission Network System-Wide Shadow Price Caps in SCED, until ERCOT deems the constraint resolvable by SCED. ERCOT shall provide the market 30 days notice before deeming the constraint resolvable by SCED. Upon deeming the constraint resolvable by SCED, the Shadow Price Cap for the constraint shall be determined pursuant to Section 3.3.

3.4.1 Trigger for Modification of the Shadow Price Cap for a Constraint that is Consistently Irresolvable in SCED

The methodology for determining and resolving an insecure state within SCED is defined in Protocol Section 6.5.7.1.10, Network Security Analysis Processor and Security Violation Alarm. ERCOT shall modify the Shadow Price Cap for a transmission network constraint that is consistently irresolvable by SCED if either of the following two conditions are true. Intervals with manual overrides performed as a result of SCED not resolving the congestion, shall be included:

1. A constraint violation is not resolved by the SCED dispatch or overridden for more than two consecutive hours on more than 4 consecutive Operating Days; or
2. A constraint violation is not resolved by the SCED dispatch for more than a total of 20 hours in a rolling thirty day period.

On the Operating Day during which ERCOT deems a network transmission constraint to have met the trigger conditions, ERCOT shall identify the following Generation Resources:

1. The Generation Resource with the lowest absolute value of the negative Shift Factor impact on the violated constraint (this resource is referred as Generation Resource C in the Shadow Price Cap calculation below); and,
2. The Generation Resource with the highest absolute value of the negative Shift Factor on the violated constraint (this resource is referred to as Generation Resource D in the designation of the net margin Settlement Point Price (SPP) described below).

When determining Generation Resources C and D above, ERCOT shall ignore all Generation Resources that have a Shift Factor with an absolute value of less than 0.02 impact on the irresolvable constraint.

3.4.2 Methodology for Setting the Constraint Shadow Price Cap for a Constraint that is Irresolvable in SCED

The Shadow Price Cap for a constraint that has met the trigger conditions described in Section 3.41, Trigger for Modification of the Shadow Price Cap for a Constraint that is Consistently Irresolvable in SCED, and the Shadow Price Cap for any constraint that has the same overloaded Transmission Element and direction as a constraint that has met the trigger conditions, will be determined as follows.

For base case or Generic Transmission Constraints (GTCs), the Shadow Price Cap on the constraint that has met the trigger conditions described in Section 3.4.1, will be set to the Maximum of the either the largest value of the Mitigated Offer Cap (MOC) for Generation Resource C, as determined above, divided by the absolute value of its Shift Factor impact on the constraint or$2,000 per MW.

For contingency constraints, when the flow on the Transmission Element is below 102% of the relevant rating, or at or above 120%, the Shadow Price Cap will be as described in Section 3.3. When the flow exceeds 102% of the relevant rating but is less than 120%, the Shadow Price Cap on a constraint that has met the trigger conditions will be set to the maximum of $2,000 per MW, or the largest value of the MOC for Generation Resource C, as determined above, divided by the absolute value of its Shift Factor impact on the constraint.

This calculation is performed one time in the Operating Day during which the trigger conditions described in Section 3.4.1 have been met and, subject to the value of the constraint net margin described below, this Shadow Price Cap will remain in effect for the shorter of the remainder of the calendar year or the remainder of the month in which the constraint is determined to be resolvable by SCED.

When the value of a constraint that has met the trigger conditions described in Section 3.4.1 accumulates a net margin, as determined in Section 3.4.3, The Constraint Net Margin Calculation for Constraints that Have Met the Trigger Conditions in Section 3.4.1, below, that exceeds $95,000/MW at any time during the remainder of the calendar year following the determination that the constraint is irresolvable by SCED, the Shadow Price Cap for this, and for all constraints that have the same overloaded Transmission Element and direction as the constraint in the next Operating Day will be set to the minimum of either $2,000/MWh or E, below, for the remainder of the calendar year:

1. The maximum of either the largest value of the MOC for Generation Resource C, as determined above, divided by the absolute value of its Shift Factor on the constraint or the currently effective Low System-Wide Offer Cap (LCAP) pursuant to subsection (g) of P.U.C. Subst. R. 25.505, Resource Adequacy in the Electric Reliability Council of Texas Power Region.

When a constraint meets the trigger condition described in Section 3.4.1 and accumulates a net margin that exceeds $95,000/MW as described in Section 3.4.2, ERCOT shall:

1. As soon as practicable, but not more than ten (10) business days after the triggers are met, review transmission outages and recall outages that are contributing to overloading the constraint(s), if feasible.

2. As soon as practicable, but not more than thirty (30) days after the triggers are met, review and develop Remedial Action Plans (RAP) or Temporary Outage Action Plans (TOAP) to mitigate congestion on the affected constraint(s), if feasible. To the degree that a RAP or TOAP can be developed, ERCOT shall implement it through an Emergency Database Load, if necessary to avoid delay in addressing the congestion.

3. As soon as practicable, but not more than ninety (90) days after the triggers are met, review and develop or identify one or more Remedial Action Schemes or transmission proposal(s) to alleviate the risk of future congestion on the affected constraint(s), if feasible, so long as the proposed solution produces an overall reduction of congestion on the ERCOT system.

4. Perform a detailed review of the constraint(s) that is irresolvable by SCED, and in the next annual Regional Transmission Plan, identify projects that will mitigate the risk of future recurrence of the condition, if any.

Additionally, at the end of the calendar year, for all constraints that have a shadow price cap set in accordance with this section, ERCOT will:

* Again determine Generation Resource C and D, as described in item C and D above; and,
* Reset the Shadow Price Cap for each of the SCED irresolvable constraints based on the calculation above for that constraint. These changes shall be become effective in January of the next year.
* Reset the Shadow Price Cap for each constraint determined to be resolvable by SCED to the appropriate default value as defined in Section 3.3.

The IMM may initiate re-evaluation of the maximum Shadow Price of the constraint if it is identified that the constraint can be resolvable. This will reset the constraint net margin calculation.

3.4.3 The Constraint Net Margin Calculation for Constraints that Have Met the Trigger Conditions in Section 3.4.1

Each constraint that has met the trigger conditions in Section 3.4.1, Trigger for Modification of the Shadow Price Cap for a Constraint that is Consistently Irresolvable in SCED, will be assigned a unique net margin value calculated as follows:

1. The SPP at the Resource Node for Generation Resource D (as determined for each SCED irresolvable constraint in Section 34.2, Methodology for Setting the Constraint Shadow Price Cap for a Constraint that is Irresolvable by SCED) is designated to be an irresolvable constraint net margin reference SPP. This SPP is unique to each SCED irresolvable constraint.
2. For these, ERCOT will calculate a constraint net margin in $/MW equal to the running sum of ¼ times the maximum of either zero or that constraint’s (net margin reference SPP – the POC) for all Real Time Settlement Intervals in the current calendar year during which the constraint is binding (i.e. the constraint net margin calculation starts with the first operating day in the current calendar year during which the constraint meets the trigger conditions described in Section 3.4.1).
3. The Proxy Operating Cost (POC) in $/MWh used in step 2 for each of these constraints equals 10 times the Fuel Index Price as defined in the Protocol Section 2, Definitions and Acronyms, for the Business Day previous to the current Operating Day.
4. All constraint net margin values for these constraints that will be carried to the next calendar year will be reset to zero at the start of the next calendar year and a new running sum will be calculated daily.

# 4. Power Balance Shadow Price Cap

4.1 The Power Balance Penalty

The Power Balance constraint is the balance between the ERCOT System Load and the amount of generation that is dispatched by SCED to meet that load. This Shadow Price for this constraint, also called System Lambda (λ), is the cost of providing one MWh of energy at the reference Electrical Bus. System Lambda, i.e. the Shadow Price for the Power Balance constraint, is equal to the change in the SCED objective function obtained by relaxing the Power Balance constraint by 1MW. The System Lambda is the energy component of Locational Marginal Price at each Settlement Point in ERCOT. The Power Balance Penalty sets the maximum limit for this Shadow Price, i.e. Power Balance Penalty is the maximum cost paid for one addition/less MW of generation to meet the ERCOT system load constraint. This section describes those factors that ERCOT considered in developing the amount of the Power Balance Penalty in $/MW versus the amount of the mismatch and provides the resulting Power Balance Penalty Curve proposed for ERCOT Board approval.

The objective function for SCED is the sum of three components (1) the cost of dispatching generation (2) the penalty for violating Power Balance constraint (3) the penalty for violating network transmission constraints. SCED economically dispatches Generation Resources by minimizing this objective function within the generator physical limits and transmission limits. Since the Power Balance penalty is the maximum cost for meeting the Power Balance, SCED will re-dispatch generation to meet the Power Balance if the cost of re-dispatching the generation is less than cost of violating the Power Balance. When the cost of re-dispatching the Generation Resources becomes higher than the cost of violating the Power Balance constraint, SCED ceases the re-dispatch of the Generation Resources and the objective function is minimized with the Power Balance penalty determined by MW amount of the Power Balance constraint violation.

In the ERCOT design, SCED implements the Power Balance Penalty by a step function with up to 10 (Violation MW; Penalty $/MW) pairs. This curve determines the maximum System Lambda for a given amount of the Power Balance Constraint violation. The following section describes the factors that ERCOT considered in developing the amount of the Power Balance Penalty in $/MWh of violation and provides the resulting Power Balance Penalty Curve.

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| ***[OBDRR020: Replace Section 4.1 above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***The Power Balance constraint is the balance between the ERCOT System Load and the amount of generation that is dispatched by SCED to meet that load. This Shadow Price for this constraint, also called System Lambda (λ), is the cost of providing one MWh of energy at the reference Electrical Bus. System Lambda, i.e. the Shadow Price for the Power Balance constraint, is equal to the change in the SCED objective function obtained by relaxing the Power Balance constraint by 1MW. The System Lambda is the energy component of Locational Marginal Price at each Settlement Point in ERCOT. The Power Balance Penalty sets the maximum limit for this Shadow Price, i.e. Power Balance Penalty is the maximum cost paid for one addition/less MW of generation to meet the ERCOT system load constraint. This section describes those factors that ERCOT considered in developing the amount of the Power Balance Penalty in $/MW versus the amount of the mismatch and provides the resulting Power Balance Penalty Price proposed for ERCOT Board approval. The objective function for SCED is the sum of four components: (1) the cost of dispatching generation; (2) the cost of procuring Ancillary Services; (3) the penalty for violating Power Balance constraint; and (4) the penalty for violating network transmission constraints. SCED economically dispatches Generation Resources and procures Ancillary Services by minimizing this objective function within the generator physical limits and transmission limits. Since the Power Balance penalty is the maximum cost for meeting the Power Balance, SCED will re-dispatch generation to meet the Power Balance if the cost of re-dispatching the generation is less than cost of violating the Power Balance. When the cost of re-dispatching the Generation Resources becomes higher than the cost of violating the Power Balance constraint, SCED ceases the re-dispatch of the Generation Resources and the objective function is minimized with the Power Balance penalty determined by MW amount of the Power Balance constraint violation. In the ERCOT design, SCED implements the under-generation Power Balance Penalty Price as a single value, which is either (a) $11,000.01/MWh when the Value of Lost Load (VOLL) is equal to the High System-Wide Offer Cap (HCAP), or (b) $4,000.01/MWh when the VOLL is set to the LCAP. This value determines the maximum System Lambda for a given amount of the Power Balance Constraint violation within the optimization. The SCED over-generation Power Balance Penalty Price is -$250/MWh. |

4.2 Factors Considered in the Development of the Power Balance Penalty Curve

ERCOT considered a number of factors in the development of the Power Balance Penalty Curve as described below. The dominant factor in the ERCOT qualitative analysis relates to the use of Regulation Ancillary Service capacity in place of generation capacity provided by the market to resolve the SCED Power Balance constraint violation. ERCOT submits that the Power Balance Penalty Curve presented herein represents a reasonable balance between the loss of the Regulation Ancillary Service capacity used to achieve system power balance and the market value of the energy deployed from these Regulation Ancillary Service Generation Resources.

The factors considered by ERCOT in its qualitative analysis, include the following:

* The amount of regulation that can be sacrificed without affecting reliability,
* The PUCT defined System Wide Offer Cap (SWCAP),
* The expected percentage of intervals with SCED Up Ramp scarcity,
* The expected extent of Ancillary Service deployment by operators during intervals with capacity scarcity, and
* The transmission constraint penalty values.

The following discussion describes the details of these factors as they affect the Power Balance Penalty amounts.

Power Balance mismatch occurs whenever SCED is unable to find a dispatch at a cost lower than the Power Balance constraint Penalty. A Power Balance mismatch can occur under two conditions. One condition occurs when the amount of generation that is dispatched up to each resource’s High Dispatch Limits is insufficient to meet the system load. This is referred to as an under generation and the System Lambda will be set by the under generation penalty. The opposite occurs when the amount of generation that is dispatched down to each resource’s Low Dispatch Limits is greater than the system load. This is referred to as an over generation and the System Lambda will be set by the over generation penalty. Both of these scenarios are unacceptable because, if left uncorrected by regulation, they result in the operation of the ERCOT system below (under generation) or above (over generation) the system frequency set point (nominally 60 Hertz). In the case of under generation, LFC will dispatch additional Regulation Service to correct the condition and restore system frequency to its set point (nominally 60 Hertz). On the other hand, in the case of over generation, LFC will dispatch reduced amounts of Regulation Service to correct the conditions and restore system frequency to its set point (nominally 60 Hertz). In other words, the Power Balance Penalty Curve acts as if it were an energy offer curve for a virtual Generation Resource injecting the amount of the Power Balance mismatch into the ERCOT system.

Since the actions that cause Regulation Ancillary Service capacity to be deployed to meet the Power Balance constraint reduces the amount of regulation capacity that can be used to maintain control of system frequency, the decision of the pricing of the power balance mismatch represents the value of the trade-off between the reduction in system reliability due to the use of the Regulation AS and the cost to the Load Serving Entities. The ERCOT system is particularly vulnerable to an inability to maintain system frequency because of the limited interchange capability of ERCOT with the Western and Eastern interconnects and, therefore, the larger the power balance mismatch, the larger the penalty amount.

In ERCOT, the PUCT has determined a maximum offer cap that is representative of supply side pricing associated with the concept of the value of lost load. By P.U.C. Subst. R. 25.505, Resource Adequacy in the Electric Reliability Council of Texas Power Region, this amount is the High System-Wide Cap and ERCOT selected this amount to serve as the maximum value for the Power Balance Penalty.

Additionally, the Power Balance constraint can also be violated during operational scenarios characterized by generation resource ramp scarcity. SCED calculates dispatch limits (a High Dispatch Limit (HDL) and a Low Dispatch Limit (LDL)) for each resource that represent the amount of dispatch that can be achieved by a Generation Resource at the end of a 5 minute interval at the resource’s specified ramp rate given current system conditions and the physical ability of the resource. The ramp rates used in this calculation are referred to as the SCED up Ramp Rate (“SURAMP”) and the SCED Down Ramp Rate (“SDRAMP”). A ramp scarcity condition can occur when, for example during morning and evening system ramp intervals, the available capacity for increasing/ decreasing Base Points (the sum of HDL minus current generation/the sum of current generation – LDL) is less than the actual system demand based on the rate at which the system Load is increasing/decreasing. Since the HDL and LDL are calculated based on the physical ramp rate of the resources, they cannot be violated. The likelihood of violation of Power Balance during ramp scarcity increases with the reduction in the capacity available for SCED that in turn depends on the operational philosophies. If Ancillary Services are deployed to maintain enough capacity that can be ramped in each SCED interval then the likelihood of Power Balance violation will be less. On the other hand if Ancillary Services are only deployed to maintain frequency and maintain online capacity and not deployed to maintain enough ramp capacity then the likelihood of Power Balance violation will be more. Along with the violation of the Power Balance Constraint in the over and under generation discussed above, Regulation Ancillary Service will be co-opted in this scenario to compensate for the SCED available capacity shortfall due to these ramp limitations. This scenario is also included in the ERCOT analysis for pricing the Power Balance Penalty.

ERCOT also considered the fact that near scarcity, the Power Balance Constraint can become violated as the result of the network transmission constraints that are also binding/ violated at the same time. In this scenario LMPs will depend on the interaction of the Power Balance Penalty with the network transmission constraint Shadow Price caps (refer to the Appendix description of the SCED Energy LMP calculation to view this relationship). Under such condition the relative values of the network transmission constraint penalty and power balance penalty will determine whether resources with positive Shift Factor on the violated constraints will be moved up to meet Power Balance causing the network transmission constraint to become violated or will be moved down to resolve the network transmission constraint violation with a concomitant Power Balance violation.

Additionally, Protocols limit both the Energy Offer Curves (“EOCs”) and the proxy EOC created in SCED to the SWCAP. SCED uses the EOC submitted by a QSE for its Generation Resources subject to the following. A proxy EOC is created in the SCED process if the QSE submitted Energy Offer Curve does not extend from LSL to HSL (in this case SCED extends the submitted EOC as described in Protocol Section 6.5.7.3, Security Constrained Economic Dispatch). A proxy EOC is also created for Generation Resources operating on an Output Schedule. In this case, the proxy EOC is designed to limit the dispatch of these resources from their Output Schedule amounts by pricing this dispatch at values equal to the System-Wide floor or cap. Since the Power Balance Penalty curve can be characterized as equivalent to a virtual EOC, the relative value of the Power Balance Penalty to the EOCs used by SCED will determine whether the energy will be deployed from the EOC or the Power Balance Penalty curve. If the Power Balance constraint is violated in step one of SCED, then the Power Balance Penalty will set the reference LMP and the submitted and proxy EOCs will then be mitigated at the max of that reference LMP or verifiable cost in the second step of SCED. Consequently, if the Power Balance Penalty Curve provides a gradual ramp to SWCAP then the prices will gradually ramp to the SWCAP instead experiencing a sudden jump to SWCAP.

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| ***[OBDRR020: Delete Section 4.2 above upon system implementation of the Real-Time Co-Optimization (RTC) project:]*** |

4.3 The ERCOT Power Balance Penalty Curve

Based on the criteria described in Section 4.2, Factors Considered in the Development of the Power Balance Penalty Curve, above, the SCED under-generation Power Balance Penalty is shown in Figure 4. The SCED over-generation Power Balance Penalty curve will be set to System-Wide Offer Floor.

**SCED Under-generation Power Balance Penalty Curve**



**Figure 4**

| ***MW Violation*** | ***Penalty Value ($/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**  | 4,500   |
| **100 < to ≤ 150**  | 6,000   |
| **150 < to ≤ 200**  | 7,500   |
| **200 or more**  | 9,001   |

The SCED under-generation Power Balance Penalty curve will be capped at LCAP plus $1 per MWh whenever the SWCAP is set to the LCAP.

**SCED Over-generation Power Balance Penalty Curve**

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| ***MW Violation*** | ***Penalty Value ($/MWh)*** |
| **< 100,000** | **-250** |

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| ***[OBDRR020: Delete Section 4.3 above upon system implementation of the Real-Time Co-Optimization (RTC) project:]*** |

# Appendix 1: The SCED Optimization Objective Function and Constraints

The SCED optimization objective function is as given by the following:

Minimize {Cost of dispatching generation

+ Penalty for violating Power Balance constraint

+ Penalty for violating transmission constraints}

which is:

 Minimize {sum of (offer price \* MW dispatched)

+ sum (Penalty \* Power Balance violation MW amount)

+ sum (Penalty \*Transmission constraint violation MW amount)}

The objective is subject to the following constraints:

* Power Balance Constraint

sum (Base Point) + under gen slack – over gen slack = Generation To Be Dispatched

* Transmission Constraints

 sum( Shift Factor \* Base Point) – violation slack ≤ limit

* Dispatch Limits

 LDL ≤ Base Point ≤ HDL

Based on the SCED dispatch the LMP at each Electrical Bus is calculated as



Where

 = System Lambda or Power Balance Penalty (if a Power Balance violation exists) at time interval “t”

 = Shift Factor impact of the bus “bus” on constraint “c” at time interval “t”

 = Shadow Price of constraint “c” at time interval “t” (capped at Max Shadow Price for this constraint).

During scarcity if a transmission constraint is violated then transmission constraint and Power Balance constraint will interact with each other to determine whether to move up or move down a resource with positive SF to the violated constraints if there are no other resources available.

* 1. Cost of moving up the Resource = Shift Factor \* Transmission Constraint Penalty + Offer cost
	2. Cost of moving down the Resource = Power Balance Penalty

The Resource will be moved down for resolving constraints if (a) > (b).

If (a) < (b) then the Resource will be moved up for meeting Power Balance.

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| ***[OBDRR020: Delete Appendix 1 above upon system implementation of the Real-Time Co-Optimization (RTC) project and renumber accordingly:]*** |

# Appendix 2: Day-Ahead Market Optimization Control Parameters

The purpose of the Day-Ahead Market (DAM) is to economically co-optimize energy and Ancillary Service by simultaneously clearing offers and bids submitted by the Market Participants to maximize social welfare while observing the transmission and generation physical constraints. The ERCOT DAM uses a multi-hour mixed integer programming algorithm to maximize bid-based revenues minus the offer-based costs over the Operating Day, subject to transmission security and other constraints as described in Protocol Section 4, Day-Ahead Operations. The bid‑based revenues include revenues from DAM Energy Bids and Point-to-Point (PTP) Obligation Bids. The Offer‑based costs include costs from the Startup Offer, Minimum Energy Offer, and Energy Offer Curve of Resources that submitted a Three-Part Supply Offer, as well as the DAM Energy-Only Offers, CRR Offers, and Ancillary Service Offers. The DAM optimization’s objective function includes components that represent the bid based revenues and offer based cost and, additionally, penalty cost values that are used to control certain non‑economic aspects of the optimization as described below. These penalty values represent costs of constraint violations and they serve two purposes: rank constraints as relative violation priorities and limit the costs of constraint limitations. Based on paragraph (4)(c)(i) of Protocol Section 4.5.1, DAM Clearing Process, the transmission constraint limits needs to be satisfied in DAM and hence the transmission constraint penalty values are set to very high values to ensure that the constraints are not violated in DAM.

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| ***[OBDRR020: Replace the paragraph above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***The purpose of the Day-Ahead Market (DAM) is to economically co-optimize energy and Ancillary Service by simultaneously clearing offers and bids submitted by the Market Participants to maximize social welfare while observing the transmission and generation physical constraints. The ERCOT DAM uses a multi-hour mixed integer programming algorithm to maximize bid-based revenues minus the offer-based costs over the Operating Day, subject to transmission security and other constraints as described in Protocol Section 4, Day-Ahead Operations. The bid‑based revenues include revenues from DAM Energy Bids and Point-to-Point (PTP) Obligation Bids. The Offer‑based costs include costs from the Startup Offer, Minimum Energy Offer, and Energy Offer Curve of Resources that submitted a Three-Part Supply Offer, as well as the DAM Energy-Only Offers, CRR Offers, and Ancillary Service Offers. The DAM optimization’s objective function includes components that represent the bid based revenues and offer based cost and, additionally, penalty cost values that are used to control certain non‑economic aspects of the optimization as described below. These penalty values represent costs of constraint violations and they serve two purposes: rank constraints as relative violation priorities and limit the costs of constraint limitations. The Protocols require transmission constraint limits to be satisfied in DAM and hence the transmission constraint penalty values are set to very high values to ensure that the constraints are not violated in DAM. The DAM optimization will also consider Ancillary Service Demand Curves for each Ancillary Service product. |

The penalty factors used in the Day-Ahead optimization’s objective function are configurable and can be set by an authorized ERCOT Operator. Table 2-1 lists the available optimization penalty cost parameters that are controllable by the ERCOT Operator. The values provided for each of these parameters have been determined by ERCOT based on the results of the DAM quality of solution analysis and various DAM stress tests performed by ERCOT and, following the TNMID, may only be changed with the concurrence of the responsible ERCOT Director.

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| ***[OBDRR020: Replace the paragraph above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***The penalty factors used in the DAM optimization’s objective function are configurable and can be set by an authorized ERCOT Operator. Table 1-1 lists the available optimization penalty cost parameters that are controllable by the ERCOT Operator. The values provided for each of these parameters may only be changed with the concurrence of the responsible ERCOT Director. |

TABLE 2 - 1

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| Penalty Function & Shadow Price Cap Cost Parameters |
| Constraint | Penalty ($/MWh) |
| Over and Under - Generation Penalty Factors |  |
| Over Generation | 5,000,000.00 |
| Under Generation | 5,000,000.00 |
| Ancillary Service Penalty Factors |  |
| Regulation Down | 3,000,000.00 |
| Regulation Up | 3,000,000.00 |
| Responsive Reserve | 2,000,000.00 |
| Non-spin Reserve | 1,000,000.00 |
| Network Transmission Penalty Factors |  |
| Base case 1-10KV | 350,000.00 |
| Base case 10.1-20KV | 450,000.00 |
| Base case 20.1-30KV | 550,000.00 |
| Base case 30.1-50KV | 650,000.00 |
| Base case 50.1-100KV | 750,000.00 |
| Base case 100.1-120KV | 850,000.00 |
| Base case 120.1-150KV | 950,000.00 |
| Base case 150+KV | 1,050,000.00 |
| Contingency 1-10KV | 300,000.00 |
| Contingency  10.1-20KV | 400,000.00 |
| Contingency  20.1-30KV | 500,000.00 |
| Contingency  30.1-50KV | 600,000.00 |
| Contingency  50.1-100KV | 700,000.00 |
| Contingency  100.1-120KV | 800,000.00 |
| Contingency  120.1-150KV | 900,000.00 |
| Contingency  150+KV | 1,000,000.00 |
| Non-thermal (e.g. generic constraints) | 1,000,000.00 |

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| ***[OBDRR020: Replace the Table 2-1 above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***TABLE 1 - 1

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| Penalty Function & Shadow Price Cap Cost Parameters |
| Constraint | Penalty ($/MWh) |
| Over and Under - Generation Penalty Factors |  |
| Over Generation | 5,000,000.00 |
| Under Generation | 5,000,000.00 |
| Network Transmission Penalty Factors |  |
| Base case 1-10KV | 350,000.00 |
| Base case 10.1-20KV | 450,000.00 |
| Base case 20.1-30KV | 550,000.00 |
| Base case 30.1-50KV | 650,000.00 |
| Base case 50.1-100KV | 750,000.00 |
| Base case 100.1-120KV | 850,000.00 |
| Base case 120.1-150KV | 950,000.00 |
| Base case 150+KV | 1,050,000.00 |
| Contingency 1-10KV | 300,000.00 |
| Contingency  10.1-20KV | 400,000.00 |
| Contingency  20.1-30KV | 500,000.00 |
| Contingency  30.1-50KV | 600,000.00 |
| Contingency  50.1-100KV | 700,000.00 |
| Contingency  100.1-120KV | 800,000.00 |
| Contingency  120.1-150KV | 900,000.00 |
| Contingency  150+KV | 1,000,000.00 |
| Non-thermal (e.g. generic constraints) | 1,000,000.00 |

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**2.1 Over/Under – Generation Penalty Factors**

In the ERCOT DAM an over/under energy supply condition (referred to here as over/under generation conditions) in an Operating Hour within the Operating Day can occur as a result of a strike of energy only block offers or the inherent lumpiness of Generation Resource strikes. The values of the Over/Under Generation Penalty Factors are chosen to allow the DAM clearing engine to select offers that result in the least amount of the over/under generation over the entire Operating Day and additionally, to enforce this constraint at the highest rank order relative to all other constraints. Additionally, the values of the Over/Under Generation Penalty Factors used in the DAM are considerably higher than the Power Balance Penalty Factor used in the SCED since DAM is a unit commitment problem and for it to clear reasonable offers and bids, the value of these penalty factors need to be high enough to reflect the start up and minimum generation cost of the committed resources. SCED, on the other hand, is an economic dispatch problem and hence for it to dispatch reasonable offers, the Power Balance Penalty Factor need only be in the order of the energy offer cost.

 **2.2 Ancillary Service Penalty Factors**

The Ancillary Service penalty factors serve two purposes. The procured amount of an Ancillary Service can be lower than the difference between the amount of the required AS, as specified in the AS Plan, and the amount of the self-arranged AS. The value of the AS penalty factors are chosen to allow the selection of AS offers that result in the least amount of deficit for each given AS over the Operating Day and to assign a priority to the AS constraints relative to the enforcement of the Power Balance and Network Transmission constraints. Additionally, the increasing penalty cost structure from Non-Spin AS to Regulation AS prioritizes the DAM AS procurement as first Regulation Services, then Responsive Reserve Service and lastly Non-Spin Service. In other words multiple offers from the same resource will be considered in the rank order given. Notably however, the AS penalty factors are not used to set the MCPC for each Ancillary Service. Instead, the infeasible AS requirement amounts are reduced to the feasible level and the DAM clearing is rerun so that the price of the last AS awarded MW sets the MCPC for the each Ancillary Service.

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| ***[OBDRR020: Delete Section 2.2 above upon system implementation of the Real-Time Co-Optimization (RTC) project and renumber accordingly:]*** |

**2.3 Network Transmission Penalty Factors**

The DAM Clearing Engine includes the Network Security Monitor (NSM) application and Network Constrained Unit Commitment (NCUC) application. These applications execute in a loop beginning with a NSM execution followed by a NCUC execution until a secure commitment pattern that maximizes the objective function is achieved (i.e. NSM begins with an estimated initial unit commitment and uses, thereafter, the latest NCUC commitment). The value of the Network Transmission Penalty Factors for each specified voltage level are used in NCUC application to set the rank order for relaxing the base case constraints and the security constrained network transmission constraints by voltage level and to set the rank order for the enforcement of the Network Transmission Constraints relative to the Power Balance and AS requirements. The increasing value of the Network Transmission Penalty Factors for increasing voltage levels assures that base case and security constraint violations are relaxed progressively in the NSM and NCUC applications in order of voltage level, from lowest to highest. This assures that the DAM solution will honor network transmission constraints in the rank order from the 345 kV to the 69 kV voltage level. Additionally, these penalty factors are chosen such that, in each voltage range, the base case violations have a slightly higher penalty factor than the security constrained penalty factors. This assigns a higher priority in the NSM and NCUC to a network transmission base case violation compared to a network transmission security constrained violation. In other words, within the same voltage level, the security constraints are relaxed before the base case constraints.

Finally, the Non-Thermal (generic constraint) Penalty Factor assigns these constraints the same priority level in the optimization as the 345 kV security constraints making both less than the 345 kV base case constraints.

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| ***[OBDRR020: Replace the paragraph above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project:]***The DAM Clearing Engine includes the Network Security Monitor (NSM) application and Network Constrained Unit Commitment (NCUC) application. These applications execute in a loop beginning with a NSM execution followed by a NCUC execution until a secure commitment pattern that maximizes the objective function is achieved (i.e. NSM begins with an estimated initial unit commitment and uses, thereafter, the latest NCUC commitment). The value of the Network Transmission Penalty Factors for each specified voltage level are used in NCUC application to set the rank order for relaxing the base case constraints and the security constrained network transmission constraints by voltage level and to set the rank order for the enforcement of the Network Transmission Constraints relative to the Power Balance constraint. The increasing value of the Network Transmission Penalty Factors for increasing voltage levels assures that base case and security constraint violations are relaxed progressively in the NSM and NCUC applications in order of voltage level, from lowest to highest. This assures that the DAM solution will honor network transmission constraints in the rank order from the 345 kV to the 69 kV voltage level. Additionally, these penalty factors are chosen such that, in each voltage range, the base case violations have a slightly higher penalty factor than the security constrained penalty factors. This assigns a higher priority in the NSM and NCUC to a network transmission base case violation compared to a network transmission security constrained violation. In other words, within the same voltage level, the security constraints are relaxed before the base case constraints. Finally, the Non-Thermal (generic constraint) Penalty Factor assigns these constraints the same priority level in the optimization as the 345 kV security constraints making both less than the 345 kV base case constraints. |

The values of the Network Transmission Penalty Factors chosen to enforce the Network Transmission Constraints are considerably higher in DAM when compared to the SCED (Network Transmission Shadow Price Caps) since the DAM is a unit commitment problem and for it to clear reasonable offers and bids, the Network Transmission Penalty Factors need to represent the higher costs associated with a unit start up and generation at minimum energy. The SCED is an economic dispatch problem and hence for it to dispatch reasonable offers; the penalties need only be in the order of energy offer cost.