

**Winter 2023-24 Contract for Capacity
Governing Document**

**October 2, 2023**

**Revision History**

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This Governing Document establishes the standards governing the participation of any source of capacity that is the subject of a contract with ERCOT entered into pursuant to the October 2, 2023 Request for Proposals (RFP) seeking capacity for the winter 2023-24 Peak Load Season. As described in the RFP, ERCOT expects to execute one or more Contracts for Capacity with Entities providing at least 1 MW of capacity from certain Generation Resources and certain Demand response (DR) sources. For the purposes of this document, any source of generation or DR capacity that operates under such a contract is referred to as a “Capacity Source,” any such contract is referred to as a “Contract for Capacity,” and the entire period of obligation under the Contract for Capacity is the “Contract Period.” Unless otherwise specifically indicated in this Governing Document, capitalized terms used in this document should be understood to have the meaning assigned in ERCOT Protocols Section 2.1, Definitions.

# STANDARDS APPLICABLE TO ALL CAPACITY SOURCES

## General

1. Any Entity that is bound by a Contract for Capacity is obligated to follow the terms of this Governing Document.
2. Capacity Sources must be complete and available to operate before the first day of obligation. Generation Resource Capacity Sources must be compliant with all interconnection and operational requirements in the ERCOT Protocols and Other Binding Documents. Generation Resources may conduct one or more tests prior to the start date. Tests are subject to coordination with an ERCOT System Operator.
3. For the purposes of this Governing Document, all references to “QSE” shall be understood to refer to the Qualified Scheduling Entity (QSE) designated by the Resource Entity for a Generation Resource Capacity Source.
4. ERCOT may deploy each Demand response Capacity Source up to three times during the Contract Period, with each deployment lasting no more than six hours. ERCOT may deploy Generation Resource Capacity Sources more frequently and for any duration, subject to the limitations in paragraph 6) of this Section.
5. Each Capacity Source must be available for deployment during one of the following periods within the Contract Period. For the purposes of this document, the period during which the Capacity Source is obligated to deploy is referred to as the “Hours of Obligation” for the Capacity Source.
	1. Each Generation Resource must be available all hours of every day during the Contract Period.
	2. Each DR Capacity Source must be available for all of the hours in one of the four following periods, as identified in its Contract for Capacity based on the designations in its response to the RFP:
		1. DR Category 1: All hours of every day during the Contract Period
		2. DR Category 2: All hours during the period from Hour Ending 0500 through Hour Ending 1000 every day during the Contract Period
		3. DR Category 3: All hours during the period from Hour Ending 1800 through Hour Ending 2300 every day during the Contract Period
		4. DR Category 4: All hours during both of the following periods every day during the Contract Period:
			1. Hour Ending 0500 through Hour Ending 1000, and
			2. Hour Ending 1800 through Hour Ending 2300.
6. ERCOT may commit and/or Dispatch a Generation Resource Capacity Source or DR Capacity Source at any time during the Capacity Source’s Hours of Obligation during a Contract Period for the purpose of utilizing the Capacity Source’s awarded capacity. ERCOT may deploy Capacity Sources when Physical Responsive Capability (PRC) is expected to, or does, fall below 2,500 MW and is not expected to be recovered above 2,500 MW within 30 minutes, or when frequency falls below 59.91 Hz for 15 consecutive minutes. At its discretion, ERCOT may deploy all Capacity Sources simultaneously or separately.

## Remedies for Material Failure to Perform

If an Entity materially fails to perform its obligations under this Governing Document, including without limitation by failing to make available the amount of awarded capacity to ERCOT by the date required, by failing to meet the minimum availability requirements applicable to the type of Capacity Source, as described in this document, or by failing to provide the awarded amount of response when Dispatched in the manner described in this Governing Document, ERCOT may take any or all of the following actions:

* Reduce payment in the manner described in the Payment Sections below;
* Foreclose any further participation by the Capacity Source by terminating the Contract for Capacity; or
* Refer the contracting Entity to the Public Utility Commission of Texas for enforcement action, which may include the assessment of administrative penalties.

## Force Majeure

Any failure to comply with the requirements of this Governing Document shall be excused if that failure is attributable to a Force Majeure Event, as that term is defined in the Protocols.

# *STANDARDS FOR GENERATION RESOURCES*

## General

1. A Generation Resource Capacity Source is required to follow all requirements that apply to Generation Resources in the ERCOT Protocols, including without limitation all requirements concerning registration, QSE designation, and telemetry, except where this Governing Document expressly provides otherwise.
2. A QSE representing a Generation Resource Capacity Source must be capable of receiving an ERCOT Reliability Unit Commitment (RUC) Verbal Dispatch Instruction (VDI) and Security Constrained Economic Dispatch (SCED) Base Points. The QSE may meet this requirement with either of the following two options:
3. By establishing a WAN connection and executing a WAN agreement with ERCOT. For this option, installation and enablement of the WAN connection at the QSE’s site is the full responsibility of the QSE; or
4. An awarded QSE may use an Agency Agreement with a certified Level 4 QSE to provide the required communication.
5. During the Contract Period, a Generation Resource Capacity Source must be available to be committed by ERCOT to provide energy up to its awarded capacity during any Hour of Obligation. ERCOT may commit the Generation Resource in advance of an Hour of Obligation to operate during an Hour of Obligation. A Generation Resource Capacity Source must achieve operation at its LSL within the startup time specified in Attachment 2 to the Contract for Capacity.
6. A Generation Resource Capacity Source must be able to follow a SCED Base Point.
7. A Generation Resource Capacity Source shall be committed only through a RUC VDI and shall not operate except when committed by ERCOT via RUC or as part of a Capacity Test.
8. Data values submitted via COP or telemetry are subject to validation using actual 15-minute metered generation.
9. A QSE shall telemeter a Resource Status of EMR for any Generation Resource Capacity Source that is offline but available for commitment and a Resource Status of ONRUC when it has come On-Line in response to a VDI.
10. For each QSE representing a Generation Resource Capacity Source, ERCOT will create a proxy Energy Offer Curve to ensure that all energy from the Generation Resource is offered at the ERCOT System-Wide Offer Cap (SWCAP) of $5,000 per MWh.

## Standby Payments for Generation Resources

1. ERCOT shall pay the QSE for a Generation Resource Capacity Source a daily standby payment. The standby payment for a Generation Resource shall be based on the contracted standby payment (in $ per MW per hour) and shall be calculated and settled in accordance with the calculation and Settlement of standby payments for Reliability Must-Run (RMR) Units under Protocols Section 6.6.6, Reliability Must-Run Settlements, except that the Incentive Factor may exceed 10%, the Rolling Equivalent Availability Factor will be calculated as described in this document, and Settlement amounts may be further adjusted based on testing or performance, as provided in this document. Generation Resources will be compensated for fuel costs incurred during an event deployment or an ERCOT-required Capacity Test based on the Fuel Index Price (FIP), plus a fuel adder provided by the Resource Entity. However, the QSE representing the Generation Resource may recover any incremental fuel costs incurred above FIP, plus fuel adder, by submitting to ERCOT the actual cost paid for fuel. However, the QSE will not be compensated for fuel costs incurred during a re-test as described in 2.2 Testing.
2. ERCOT may require the QSE representing the Generation Resource to submit the actual eligible cost, including fuel costs, incurred during the Contract Period and the standby payments may be adjusted to reflect the actual cost incurred instead of the budgeted costs.
3. Notwithstanding the calculation of the Rolling Equivalent Availability Factor as described in Protocols Section 6.6.6.1, RMR Standby Payment, and Protocol Section 3.14.1.17, Incentive Factor, for purposes of this Contract for Capacity, the Rolling Equivalent Availability Factor shall be calculated monthly as the total number of hours the Generation Resource was available per the Current Operating Plan (COP) during the month, divided by the total hours in the month. The actual Availability Reduction Factor will be calculated as described in Protocols section 6.6.6.1, RMR Standby Payment. For purposes of any Contract for Capacity, the target Availability shall be set to 100%.
4. Contracted Generation Resource capacity will not be included in the calculation of a QSE’s RUC capacity credit during the Contract Period.
5. The Incentive Factor shall be reduced if the Generation Resource fails to perform to the contracted capacity during a Capacity Test as described in Section 2.3 of this document or during an event deployment. The reduction in the Incentive Factor will be linear, with a 2% reduction in the Incentive Factor for every 1% that the average level of output over the test or the event, as measured starting at the end of the Resource’s designated startup period, falls below the level of awarded capacity.
6. Each Generation Resource Capacity Source will be modeled in the ERCOT Settlement System and in ERCOT pricing systems as an RMR Resource and will be subject to treatment as an RMR Resource for all Settlement and pricing purposes unless otherwise specified in this document or in the ERCOT Protocols.

## Testing

1. ERCOT may conduct a Capacity Test of any Generation Resource Capacity Source at any time during the Contract Period and will limit testing to no more than once per Contracted Month. One re-test per month is permitted upon request of the QSE representing the Generation Resource.
2. To assist QSEs in managing compliance, ERCOT shall limit the duration of deployments of any single test to a maximum of one hour.

# STANDARDS FOR DEMAND RESPONSE CAPACITY SOURCES

This section of this document describes the requirements for a Demand Response Capacity Source. Eligible DR Capacity Sources include individual Customers and aggregations of individual Customers served by a Transmission and/or Distribution Service Provider (TDSP) located in the ERCOT Region. Customers who rely on unregistered Distributed Generation to reduce their demand to the ERCOT System may be included in a DR Capacity Source. “Negative Load” or load reduction associated with a generation injection from a Customer site may be included in calculating eligible capacity. The amount of capacity eligible to be offered must be no greater than the amount of DR capability that is determined not to have been price-responsive during the 2022-23 winter Peak Load Season. A Customer’s Load will be considered not to be price-responsive if that Load (including the injection potential associated with any co-located unregistered generation) was observed during at least 90% of the 25 highest-priced Settlement Intervals during the Hours of Obligation that correspond to the category designation for the DR Capacity Source during the 2022-23 winter Peak Load Season. A DR Capacity Source need not be represented by a QSE for the purposes of a Contract for Capacity.

## Definitions

The following terms are defined as follows only for the purposes of Section 3 of this Governing Document:

**Contracted Month** – Any month or part thereof in which a Capacity Source is obligated under a Capacity Contract.

**Demand Response Capacity Source –** A Capacity Source that will meet its Capacity Contract performance requirements by reducing Energy consumption or by injecting energy from unregistered generation in response to a deployment instruction.

**Interval Metering** – Meters measuring energy usage in 15-minute intervals and meeting the requirements applicable to the ERCOT system, including Interval Data Recorders (IDRs) and Advanced Meters, as defined in the Protocols, and other types of metering meeting the accuracy standards described in the Metering & Meter Data section of this document.

**Ramp Period** – Period of time beginning with ERCOT’s issuance of a dispatch instruction requesting deployment and ending at the time the capacity from a DR Capacity Source is required to be delivered. The Ramp Period for DR Capacity Sources may be 30 minutes in duration.

**Site** – Either an individual DR Capacity Source or a member of an aggregated DR Capacity Source.

**Unique Meter ID** – A unique Identifier assigned to any Site that is within the service territory of a Non-Opt In Entity (NOIE).

## General

1. An Entity representing a DR Capacity Source must:
	1. Have the capability to communicate with each Site in its Capacity Source in such a way as to allow the Capacity Source to meet its performance obligations in a deployment event,
	2. Have the capability of receiving and responding to an instruction from ERCOT issued by telephone or by other agreed method, and

c) Instruct each Capacity Source to deploy its contracted capacity.

1. ERCOT shall dispatch DR Capacity Sources during deployment events or unannounced tests by means of a verbal instruction via telephone call (ERCOT will not issue instructions via a QSE Hotline call because offering Entities may not be QSEs). The end of the instruction shall represent the start of the Ramp Period.
2. When deployed, a DR Capacity Source must curtail its consumption by an amount equal to its awarded capacity by the end of the Ramp Period. A Category 1 DR Capacity Source must stay deployed until the earlier of an ERCOT recall instruction or the expiration of six hours following the end of the ERCOT deployment instruction. A Category 2 DR Capacity Source must stay deployed until the earlier of an ERCOT recall instruction or 10:00 a.m. A Category 3 DR Capacity Source must stay deployed until the earlier of an ERCOT recall instruction or 11:00 p.m. A Category 4 DR Capacity Source must stay deployed until the earlier of (1) an ERCOT recall instruction and (2) the earlier of 10:00 a.m. or 11:00 p.m.
3. Following a recall instruction or a recall based on the end of a DR Capacity Source’s Hours of Obligation, the DR Capacity Source must return to service within 5 hours if it is a Category 1 or 4 DR Capacity Source and must return to service within 18 hours if it is a Category 2 or 3 DR Capacity Source.

## Standby Payments for Demand Response Capacity Sources

1. Any Entity with a DR Capacity Source that is subject to a Contract for Capacity will be paid a standby payment equal to the Capacity Source’s awarded capacity multiplied by the awarded standby price multiplied by the total number of Hours of Obligation in the Contract Period, subject to adjustments for availability, event performance, and test performance, as described below. ERCOT shall pay the Entity representing a DR Capacity Source an agreed standby payment via a manual Settlement Invoice after verification of performance and availability following the end of the Contract Period. The standby payment need not be based on a cost or a specified Incentive Factor. Customers representing a DR Capacity Source that utilizes generation to offset load will not be compensated for fuel costs.
2. DR Capacity Sources are not eligible for Energy payments.
3. A DR Capacity Source’s standby payment is subject to adjustment based on its availability and event or test performance. For an event or test, ERCOT will calculate an Event Performance Factor for a DR Capacity Source as based on its performance during the event or test period.

## DR Capacity Source Identification and Eligibility

1. QSEs or other Entities submitting an offer in response to the RFP for a DR Capacity Source must identify in the Offer Submission Form each participating Site that will make up the DR Capacity Source.
2. A DR Capacity Source may consist of a single Site or multiple Sites.
3. An accurate Site name, street address, and ZIP Code is required for each submitted Site.
4. For Sites in a NOIE territory, the substation identification.
5. The completed Offer Submission Form must include one or more of the following meter identifiers for each submitted Site:
6. An ESI ID number for any Site where an ESI ID is present, including:
7. All Sites situated in competitive choice areas of the ERCOT Region;
8. A NOIE Settlement metering point if the meter at that point is dedicated to the Site that will be in the DR Capacity Source; or
9. A non-Settlement ESI ID within a NOIE footprint.
10. A Unique Meter ID for Sites within a NOIE service territory that are not metered by a dedicated Settlement metering point ESI ID or a non-Settlement ESI ID, provided that Unique Meter IDs must be distinct and must remain consistent throughout the Contract Period. Unique Meter IDs for Sites in NOIE service territories should be formatted according to the instructions in the “Participation by Sites in NOIE Territories” subsection below.
11. By submitting an offer Submission Form for a DR Capacity Source, the QSE or other Entity affirms that it has obtained written authorization from each Customer whose Load is included in the DR Capacity Source to offer the Customer’s capacity for this purpose.
12. Any DR capability that has participated in Emergency Response Service (ERS) or as part of a Load Resource within the past two years is not eligible to be included in an offered DR Capacity Source. DR capability that is enrolled in any DR program that exists as of October 2, 2023 and that could be deployed during the winter Peak Load Season, including TDU Load Management Programs, ERS, any ERCOT Ancillary Service, or any existing program offered by a Load Serving Entity, is not eligible to be offered into this program. Any Customer’s DR capability may be offered into only one DR Capacity Source. If ERCOT determines that the same DR capability has been awarded to more than one DR Capacity Source, ERCOT will not include that capability in the last-offered DR Capacity Source in evaluating that Capacity Source’s availability and performance.
13. Customers whose Load is associated with a Dynamically Scheduled Resource (DSR) may not be offered as part of a DR Capacity Source. ERCOT may reject any offer that includes such a Customer. Following an executed Contract for Capacity, if ERCOT determines that any participating Customer is associated with a DSR, the awarded capacity associated with that Customer will be treated as removed from the Capacity Source on the date the determination was made. A DR Capacity Source’s obligation during a deployment event or test will not change as a result of any such Site removal.

## Offer Submission

1. Each QSE or other Entity offering a DR Capacity Source shall submit its offer using the Offer Sheet and the DR Capacity Source Site Information spreadsheet.
2. For each DR Capacity Source, the QSE or other offering Entity shall declare the offered standby price, which shall represent the total expected payment per MW per hour for successfully fulfilling the terms of the Contract for Capacity in accordance with the requirements of the RFP and this document.
3. Any offer that includes a Site submitted by more than one QSE or other Entity is subject to rejection by ERCOT.
4. As indicated in the RFP, a QSE or other Entity is allowed to withdraw its offer at any time prior to the award date in the RFP.

## Metering & Meter Data

Each DR Capacity Source and each Site within a DR Capacity Source that consists of an aggregation of Sites must have dedicated 15-minute Interval Metering, subject to approval by ERCOT.

### Meter Data Submitted to ERCOT by TDSPs in Competitive Choice Areas

1. For ESI IDs situated in competitive choice areas of the ERCOT Region, meter data is stored in the ERCOT systems and will be accessed by ERCOT using the ESI ID number provided in the Offer Submission Form.

### Meter Data for DR Capacity Sources in NOIE Territories

1. QSEs or other Entities offering DR Capacity Sources that include Sites located in a territory served by a NOIE are responsible for arranging with the NOIE TDSP to provide ERCOT with all interval meter data that will be necessary to ensure. As a condition for offering a DR Capacity Source, an Entity must identify each NOIE TDSP in whose service territory any Site within the DR Capacity Source is located and confirm that it has received written authorization from that TDSP to provide all meter data that may be required to verify DR capability, availability, and performance. If ERCOT is unable to obtain the required meter data from a NOIE, ERCOT may consider the capacity for which meter data has not been provided to be unavailable and/or to have failed to perform.
2. ERCOT may request any NOIE meter data for purposes of determining a Customer’s DR capability, availability, and performance.
3. QSEs or other Entities representing Sites in NOIE service territories are responsible for arranging for the NOIE TDSP to provide ERCOT with interval meter data for the Sites in the prescribed format on a monthly basis within 35 days of the end of each calendar month or within 35 days of a test or event deployment. The interval data must be provided to ERCOT in a file format defined in the document entitled “Interval Data File Format Descriptions” at the ERS Web Page. ERCOT reserves the right to verify the accuracy of such data with the NOIE TDSP.

## Availability Measurement & Verification

1. DR Capacity Source availability will be evaluated on a monthly basis.
2. After the Contract Period, and before providing payment under the Contract for Capacity, ERCOT shall provide each offering Entity representing a DR Capacity Source with an availability report for each DR Capacity Source represented by that Entity.

### DR Capacity Source Monthly Availability Calculations

1. ERCOT will calculate a Monthly Availability Factor for each DR Capacity Source as follows:
2. ERCOT will consider the DR Capacity Source to have been available for any 15-minute interval during its Hours of Obligation in which the DR Capacity Source’s Actual Load was greater than 95% of the DR Capacity Source’s awarded obligation; otherwise, the DR Capacity Source will be considered unavailable for that 15-minute interval. The Monthly Availability Factor will be the ratio of the number of 15-minute intervals the DR Capacity Source was available during the Contracted Month divided by the total number of obligated 15-minute intervals in the Contracted Month.
3. The DR Capacity Source’s standby payment will be adjusted for availability as follows:

|  |  |
| --- | --- |
| Calculated Monthly Availability Factor (AF) | Adjusted Availability Factor |
| If Monthly AF is greater than or equal to 95% | 100% |
| If Monthly AF is less than 95% but greater than or equal to 85% | Calculated Monthly Availability Factor |
| If Monthly AF is less than 85% | Square of the Calculated Monthly Availability Factor  |

1. The following intervals will be excluded in ERCOT’s calculations of a DR Capacity Source’s availability factor:
2. Any 15-minute interval in which a DR Capacity Source was deployed during a deployment event or an ERCOT test;
3. Any 15-minute intervals on the day of an ERCOT deployment or test following end of any deployment applicable to that DR Capacity Source; and
4. Any 15-minute interval that one or more Sites within a DR Capacity Source were disabled or unverifiable due to events on the TDSP side of the meter affecting the supply, delivery, or measurement of electricity to the Load. Offering Entities must provide verification of such events from the TDSP or Meter Reading Entity (MRE).

## Event Performance Measurement & Verification

1. Following the end of the Contract Period, but before payment, ERCOT will provide each Entity representing a DR Capacity Source with an event performance report containing the results of ERCOT’s evaluation of the event(s) for each DR Capacity Source during the Contract Period.
2. ERCOT will calculate a DR Capacity Source’s interval performance factors for intervals during an ERCOT test or an event deployment using the following formulas:

**MIPF*i* = Max(Min(((Actual\_MWh*i*) / (IntFrac*i* \* Award MWh)),1),0)**

The above variables are defined as follows:

|  |  |  |
| --- | --- | --- |
| **Variable** | **Unit** | **Description** |
| IntFraci | None | Interval fraction for that DR Capacity Source for that interval. |
| Actual\_MWhi | MWh | The aggregated sum of the Site-specific metered actual MWh values for all Sites in the DR Capacity Source for that interval. |
| Award MWh | MWh | The DR Capacity Source’s Obligation for that interval expressed in units of MWh.  |
| I | None | A Settlement Interval. |

As used in the preceding formula, IntFraci corresponds to the fraction of time for that interval for which the deployment is in effect and is computed as follows:

**IntFrac*i*= (CEndT*i* – CBegT*i*) / 15**

The above variables are defined as follows:

|  |  |  |
| --- | --- | --- |
| Variable | Unit | Description |
| IntFraci | None | Interval fraction for that DR Capacity Source for that interval. |
| CBegTi | Minutes | If the deployment begins after the start of that interval, the time in minutes from the beginning of that interval to the beginning of deployment; otherwise, it is zero. |
| CEndTi | Minutes | If the deployment ends during that interval, the time in minutes from the beginning of that interval to the end of the deployment; otherwise, it is 15. |
| I | None | A Settlement Interval. |

1. For each ERCOT test or deployment of a DR Capacity Source, ERCOT may calculate an event performance factor as the time-weighted arithmetic average of the DR Capacity Source’s interval performance factors, as calculated above, for the intervals covered by the test/event. The event performance factor calculation will begin with the first partial or full interval in the deployment and will end with the last partial or full interval in the deployment.
2. For a Category 1 DR Capacity Source, the deployment will end at the earlier of an ERCOT recall instruction or the expiration of six hours following the end of the ERCOT deployment instruction. For a Category 2 DR Capacity Source, the deployment will end at the earlier of an ERCOT recall instruction or 10:00 a.m. For a Category 3 DR Capacity Source, the deployment will end at the earlier of an ERCOT recall instruction or 11:00 p.m. For a Category 4 DR Capacity Source, the deployment will end at the earlier of (1) the time ERCOT issues a recall instruction to the Entity representing the DR Capacity Source and (2) the earlier of 10:00 a.m. or 11:00 p.m.
3. Event performance factors are expressed as a number between 0 and 1. ERCOT will assign final factors to three decimal points using standard rounding procedures. For example, a factor of 0.94950 will round to 0.950; a factor of 0.94949 will round to 0.949.
4. A DR Capacity Source that achieves an event performance factor of 0.95 or greater for a test or event and an interval performance factor of 0.95 or greater for the first full interval of the test or event will be deemed to have successfully met its deployment obligations for that test/event.
5. If a DR Capacity Source achieves an event performance factor of less than 0.95 for the test or event, the interval performance factors for that event will be multiplied by an adjustment factor such that the adjusted event performance factor for the test or event will be equal to the square of the original event performance factor.
6. For any Contracted Month in which ERCOT has deployed DR Capacity Sources at least once for either an ERCOT test or an event deployment, the event performance factor for the Contracted Month shall be the time-weighted average of the interval performance factor values for all tests or events in the Contracted Month. The interval performance factors used for this calculation shall reflect any squaring applied pursuant to the preceding paragraph.

## Testing

1. ERCOT may conduct a test of any DR Capacity Source at any time during the Capacity Source’s Hours of Obligation during the Contract Period and will limit testing to no more than once per Contracted Month, unless the DR Capacity Source requests a retest.
2. ERCOT will not conduct a test of a DR Capacity Source during any month in which an event deployment has already occurred.
3. ERCOT shall limit the duration of deployments of any single test to a maximum of one hour.