Authors: Khairullin Artur (RU) *prcr98@gmail.com* 11 August 2026

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PBDR v2.0: Policy-Based Decentralized Routing for Enterprise AI Inference with Hybrid Cloud Architecture

Abstract

The escalating demand for Large Language Models (LLMs) and other AI services in enterprise settings is hindered by high infrastructure costs, data privacy concerns, and the underutilization of existing computational assets. This paper introduces a novel middleware architecture, Policy-Based Decentralized Routing (PBDR), which transforms a heterogeneous fleet of standard workstations into a resilient, private, and cost-effective inference cluster. Unlike centralized systems, PBDR operates without a global scheduler or a shared request queue. Instead, it employs a client-driven, policy-based routing mechanism where each client independently computes a Cost Vector and applies a Policy Weight Vector via scalar product to select the optimal compute node.

This paper presents a formal mathematical model of the system, defines the routing problem as a constrained optimization task, and proves key properties of the algorithm, including correctness, fault tolerance, and monotonicity. We provide a detailed architectural specification, including a formal Monitor API (OpenAPI v3), UML diagrams, a rigorous cost function model, and a comprehensive complexity analysis. We demonstrate, through a mathematical model of network traffic and fault scenarios, that the PBDR approach is linearly scalable, highly resilient, and introduces negligible overhead.

PBDR v2.0 extends this foundation with **hybrid cloud routing capabilities**, introducing a two-level decision engine that dynamically selects between local GPU clusters and 40+ cloud LLM providers (OpenAI, Anthropic, Google, Azure, AWS, and others). The extension adds an economic cost model comparing local electricity costs (via real-time GPU power monitoring) against cloud API token costs, enabling cost-aware routing decisions. We prove hierarchical decision optimality (Theorem 5) and demonstrate through practical experiments that the system achieves 60% cost reduction and 3.4x latency improvement for cloud-routed requests. This work positions the Policy-Driven Optimizer as a novel class of middleware for enterprise AI, with applications extending beyond LLMs to encompass flexible, application-aware routing policies across both on-premise and cloud infrastructure.

Keywords: Distributed Systems, Large Language Models, Enterprise Computing, GPU Utilization, Decentralized Architecture, Policy-Based Routing, Hybrid Cloud, Cost Function, Load Balancing, Fault Tolerance, Middleware, Policy-Driven Optimizer, Cloud API Integration.

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1. Introduction

The rapid advancement of Large Language Models (LLMs) has unlocked transformative potential for various enterprise applications, from intelligent assistants and code generation to Retrieval-Augmented Generation (RAG) systems for internal knowledge bases. However, the widespread deployment of these models in a corporate environment faces significant hurdles:

1. High Infrastructure Costs: Deploying on-premise dedicated AI clusters requires substantial investment in specialized servers with high-end, often expensive, server-grade GPUs (e.g., NVIDIA A100, H100). A single server can cost upwards of $50,000-$100,000, making it prohibitive for many organizations. The capital expenditure for a modest cluster of 10 servers can exceed $1,000,000, presenting a challenging ROI proposition for many enterprises.

2. Data Privacy and Security: Concerns over data leakage and compliance (e.g., GDPR, HIPAA, SOC2) often prohibit the use of public, third-party AI APIs. Internal deployment is frequently a strict requirement. According to a 2023 survey, 78% of enterprises cite data privacy as their primary concern for adopting AI [1]. In regulated industries such as healthcare and finance, data locality is not just a preference but a legal mandate.

3. Resource Underutilization: Many enterprise workstations used by engineers, designers, and researchers are equipped with increasingly powerful consumer-grade GPUs (e.g., RTX 3060, 4070, 4090). These GPUs are often idle or underutilized for 75-95% of the workday [2]. A significant portion of the required compute resources are already paid for and present within the corporate network. For example, a typical engineering team of 50 people may have 30-40 GPUs that sit idle during off-hours and weekends.

4. Cloud API Integration Complexity: While cloud providers offer powerful models, integrating them with internal infrastructure, managing multiple API keys, implementing intelligent routing between local and cloud resources, and handling cost optimization presents significant operational complexity. Organizations need a unified interface that can seamlessly switch between internal and external resources based on cost, performance, and privacy requirements.

1.1. Core Idea: PBDR v2.0 - Hybrid Cloud Architecture

This paper introduces **Policy-Based Decentralized Routing (PBDR)** , a new class of middleware for enterprise AI inference, and its extension **PBDR v2.0** with hybrid cloud capabilities. The PBDR architecture is characterized by:

- **Decentralization**: No central scheduler, load balancer, or queue. This eliminates single points of failure and performance bottlenecks. Each client (or middleware instance) independently makes routing decisions without coordination, ensuring linear scalability and resilience.

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- **Client-Driven Decisions**: The routing logic resides within the client (or middleware acting on its behalf), which computes a cost for each node based on its current state. This approach eliminates the need for global state synchronization and enables each request to be evaluated independently.
- **Policy-Based**: The routing logic is not fixed; it is defined by a configurable **Policy Vector**. This allows different departments (e.g., Support vs. Engineering) or applications to use different routing strategies. Policies are expressed as weight vectors that transform the multi-dimensional Cost Vector into a scalar cost via dot product.
- **Modularity**: The system is designed to be extensible and compatible with any AI engine that supports the OpenAI API (e.g., vLLM [3], TGI [4], Ollama [5]). The Monitor API ensures a clean separation between node state publication and routing logic.
- **Stateless Nodes**: Compute nodes are stateless from a routing perspective, making them easy to manage, replace, and scale. Nodes publish only objective state metrics through the Monitor API, never computed scores or routing decisions.

Building upon this foundation, **PBDR v2.0** introduces several significant extensions:

- **Two-Level Decision Making**: A **Decision Engine** first selects the execution environment (local cluster or cloud provider) based on 8 criteria, then the original **Policy-Driven Optimizer** selects the optimal local node when applicable. This creates a hierarchical decision process that combines the strengths of both local and cloud resources.
- **Multi-Dimensional Cost Model**: The system combines the original **10+3-dimensional Cost Vector** for local nodes with **8 additional criteria** for cloud routing decisions, creating a comprehensive cost model that considers performance, economics, privacy, and operational factors.
- **Economic Optimization**: Real-time comparison of local electricity costs (based on actual GPU power consumption from power_max metric) versus cloud API token costs enables cost-aware routing decisions. This is formalized as:

$$Cost_{local} = \frac{(p_r + o_r) \cdot P^{-}_{GPU} \cdot \beta}{3.6 \times 10^{6} \cdot v_{tokens/s}}$$

** While this formula captures the primary operational cost (energy consumption during active inference), the PBDR framework is designed to accommodate a broader economic model. The Cost Vector and Policy Engine can incorporate additional cost factors including:*

- *CPU and RAM utilization*
- *Cooling and PSU efficiency overhead*
- *Hardware depreciation and acquisition costs*
- *Maintenance and administrator overhead*
- *Idle power consumption and opportunity cost*
- *Networking and storage costs*
- *Model loading and switching penalties*

This extensibility allows organizations to tailor the cost model to their specific infrastructure and business priorities.

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- **Vendor Agnosticism**: The **CloudLLMInterface** supports 40+ cloud providers and API endpoints through a unified adapter pattern, including OpenAI, Anthropic, Google (Gemini, Vertex AI), Azure, AWS Bedrock, DeepSeek, Together AI, Fireworks AI, Replicate, HuggingFace, and many others.
- **Full OpenAI API Compatibility**: The system presents a complete OpenAI-compatible API surface, enabling seamless integration with existing tools (LangChain, LlamaIndex, etc.) and supporting both streaming (SSE) and non-streaming responses.
- **Versioned State Protocol**: To maintain cache consistency across distributed middleware instances, PBDR v2.0 introduces a versioning mechanism using `If-Version` headers, reducing network overhead by 40-60% while ensuring state freshness ≥95%.
- **Exploration-Exploitation Framework**: The routing algorithm incorporates UCB-style exploration bonus to balance between exploiting known optimal nodes and exploring alternatives, enabling adaptation to changing conditions and discovery of better routes.

1.2. Contributions

The main contributions of this paper are:

1. A formal definition of the enterprise AI inference routing problem, establishing it as a constrained optimization task.
2. The design and specification of the PBDR middleware architecture, including detailed UML diagrams.
3. A formal mathematical model of the Decision Engine as a Policy-Driven Optimizer, with a Cost Vector formulation.
4. Formal proofs of correctness (Theorem 1), fault tolerance (Theorem 2), monotonicity (Theorem 3), and an analysis of algorithmic complexity (Theorem 4).
5. A complete specification of the Monitor API using OpenAPI 3.0, defining a standardized interface for node state publication.
6. The introduction of Policy-Based Routing as a mechanism to achieve application- and user-specific performance objectives, decoupling routing logic from infrastructure.
7. A comprehensive network traffic analysis demonstrating the protocol’s scalability.
8. A scalability analysis showing that the system handles growth in clients and nodes linearly.
9. A validation framework with three stages: Simulation, Prototype, and Production.

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10. An analysis of computational costs for the client-side routing decision.
11. A dedicated security considerations section addressing enterprise requirements.

PBDR v2.0 adds the following contributions:

12. A formal definition of the hybrid enterprise AI inference routing problem, establishing it as a two-level constrained optimization task.
13. A formal mathematical model of the Decision Engine as a Cloud Score evaluator with 8 weighted criteria.
14. An economic cost model for comparing local electricity costs versus cloud API token costs, incorporating real-time GPU power monitoring.
15. Formal proof of hierarchical decision optimality (Theorem 5) and Cloud Score monotonicity (Theorem 6)..
16. Full support for streaming responses through cloud providers via SSE proxying.
17. A comprehensive vendor compatibility matrix covering 40+ cloud providers and open-source inference engines.
18. A Versioned State Protocol for cache consistency across distributed middleware instances.
19. An Exploration-Exploitation framework with formal jitter and UCB-based exploration models.
20. Federated Policy Learning architecture for privacy-preserving, department-specific policy optimization.
21. Practical experimental validation with real-world test results demonstrating latency, cost savings, and routing accuracy.
22. The reference implementation at https://github.com/oqo-ai/OQOAI-PBDR with production-ready code.

2. Scientific Contributions

This section explicitly enumerates the novel scientific contributions of this work. While the individual components are rooted in existing research, their combination and formalization represent a significant advance in the field of distributed AI inference.

2.1. The Cost Vector Formulation

Contribution: We introduce the Cost Vector

$$C(r, v_i) \in R^{13}$$

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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as a multi-dimensional representation of cost components. Unlike traditional approaches that use a single scalar metric (e.g., queue length, ETA), the Cost Vector preserves the multi-faceted nature of inference costs.

Novelty: This is the first work to formally represent inference routing costs as a vector rather than a scalar. This allows for:

- Composability: New cost factors can be added without changing the core algorithm.

- Interpretability: Each component has a clear physical meaning.

- Flexibility: Different policies can weight components differently.

2.2. The Policy Weight Vector

Contribution: We introduce the Policy Weight Vector

$$\Pi \in R^{13}$$

as a formal representation of routing policies. The scalar cost is computed as the dot product:

$$Cost = \Pi \cdot C$$

Novelty: This is the first formalization of routing policies as vectors in a weight space. This enables:

- Mathematical clarity: Policies are just vectors.

- Composability: Policies can be combined through vector operations.

- Learning: Policies can be learned from data via regression.

- Comparison: Policies can be compared using distance metrics.

2.3. The Policy-Driven Optimizer

Contribution: We formalize the Policy-Driven Optimizer as a function:

$$Optimizer(r, \Pi, State(V, t)) = arg \min_{v_i \in V} \Pi \cdot C(r, v_i)$$

Novelty: This is the first formalization of an inference routing optimizer as a policy-driven mathematical function. This abstraction:

- Decouples the optimizer from the underlying infrastructure.

- Enables formal analysis (correctness, monotonicity, complexity).

- Generalizes to any stateless, compute-intensive workload.

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2.4. The Stateless Monitor API

Contribution: We specify the Monitor API as a standardized, stateless interface for nodes to publish objective state. The API returns raw measurements, not computed scores.

Novelty: This is the first specification of a vendor-agnostic, algorithm-agnostic monitoring API for distributed AI inference. Key innovations:

- Algorithm independence: Nodes know nothing about routing policies.

- Vendor neutrality: Works with any OpenAI-compatible server.

- Extensibility: New metrics can be added without breaking compatibility.

2.5. Client-Side Decentralized Routing

Contribution: We propose fully decentralized routing where each client (or middleware instance) independently makes routing decisions without coordination.

Novelty: Unlike existing approaches that rely on centralized schedulers or distributed consensus, our approach:

- Eliminates the need for global state synchronization.

- Eliminates single points of failure.

- Scales linearly with the number of nodes and clients.

- Is mathematically proven to be correct (Theorem 1) and fault-tolerant (Theorem 2).

2.6. Formal Proof of Monotonicity

Contribution: We provide a formal proof that the Cost Vector components are monotonic non-decreasing functions of their metrics (Theorem 3).

Novelty: This is the first formal proof that a routing optimizer using this cost structure makes consistent and predictable decisions. The monotonicity property ensures that:

- A node better in all metrics will never be worse in cost.

- The optimizer’s decisions are rational and explainable.

2.7. The Cloud Score Model

Contribution: We introduce the **Cloud Score**

$$S_{cloud} \in [0, 1]$$

as a weighted sum of 8 criteria that determines whether a request should be routed to the cloud or the local cluster.

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Novelty: This is the first formal model for hybrid cloud-local routing in decentralized AI inference systems. The Cloud Score model:

- Enables dynamic switching between local and cloud resources.

- Incorporates economic, performance, and privacy considerations.

- Is composable with the original Cost Vector model.

- Can be configured through policy weights and thresholds.

2.8. The Economic Cost Model

Contribution: We introduce a formal model for comparing the cost of local GPU inference (based on real-time power consumption and electricity price) versus cloud API inference (based on token costs).

Novelty: This is the first work to integrate real-time GPU power monitoring into routing decisions for AI inference. The model:

- Uses power_max from GPU monitoring (NVIDIA NVML / ROCm).

- Calculates local cost as:

$$Cost_{local} = \frac{(p_r + o_r) \cdot P^{-}_{GPU} \cdot \beta}{3.6 \times 10^{6} \cdot v_{tokens/s}}$$

- Enables cost-aware routing decisions that can significantly reduce operational expenses.

Beyond GPU Power: The PBDR v2.0 economic model is designed to be extensible beyond GPU power consumption. The framework can incorporate additional cost components relevant to enterprise operations:

- **Compute Resources:** CPU utilization, RAM usage, storage I/O
- **Infrastructure:** Cooling costs, PSU efficiency, hardware depreciation, acquisition costs
- **Operations:** Administrator overhead, maintenance, idle power consumption
- **Network:** Data transfer costs, inter-node latency
- **Contextual:** Model loading penalties, opportunity cost of occupied nodes

These factors can be integrated into the Cost Vector as additional components or as modifiers to the existing economic cost calculation, providing organizations with a holistic view of inference costs

2.9. Hierarchical Decision Optimality Theorem

Contribution: We prove that the two-level decision process (Cloud Score + Policy-Driven Optimizer) produces a routing decision that is optimal conditional on the environment selected by the Decision Engine (Theorem 5).

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Novelty: This is the first formal proof that a hybrid cloud-local routing system can guarantee optimal resource selection within the chosen environment class. The theorem establishes that given the Decision Engine's environment selection, the system selects the optimal local node or cloud provider. The effectiveness of the environment selection heuristic is empirically validated..

2.10. Versioned State Protocol

Contribution: We introduce the Versioned State Protocol (VSP) for maintaining cache consistency across distributed middleware instances without centralized coordination.

Novelty: This is the first protocol to address the stale cache problem in decentralized AI routing systems. The protocol:

- Uses If-Version headers to minimize network overhead.

- Guarantees state freshness with ≥95% accuracy.

- Reduces discovery traffic by 40-60%.

- Is proven to maintain consistency without global synchronization.

2.11. Federated Policy Learning

Contribution: We introduce Federated Policy Learning (FPL) as a privacy-preserving mechanism for department-specific policy optimization.

Novelty: This is the first application of federated learning to routing policy optimization in distributed AI systems. The approach:

- Enables automatic policy tuning based on departmental workloads.

- Preserves privacy through differential privacy guarantees.

- Supports both centralized and decentralized aggregation.

- Adapts to changing workload patterns dynamically.

2.12. Summary of Contributions

Contribution	Type	Impact
Cost Vector	Formal Model	Enables multi-dimensional cost representation
Policy Vector	Formal Model	Enables mathematical policy definition
Policy-Driven Optimizer	Algorithm	Enables formal analysis and generalization
Stateless Monitor API	Protocol	Enables vendor and algorithm independence

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Contribution	Type	Impact
Client-Side Routing	Architecture	Eliminates SPOF, enables linear scaling
Monotonicity Proof	Theory	Ensures rational decision-making
Cloud Score Model	Formal Model	Enables hybrid cloud-local routing
Economic Cost Model	Formal Model	Enables cost-aware routing decisions
Hierarchical Decision Optimality	Theory	Guarantees conditional optimality within selected environment
Versioned State Protocol	Protocol	Ensures cache consistency
Federated Policy Learning	Algorithm	Enables privacy-preserving policy optimization

3. Related Work

This work is positioned at the intersection of several existing fields: centralized AI serving, distributed computing, hybrid cloud systems, and enterprise middleware.

3.1. Centralized AI Inference Serving

Modern systems for AI serving, such as vLLM [3], TensorRT-LLM [6], and TGI [4], are designed to maximize throughput and efficiency within a dedicated, homogeneous cluster. They often include sophisticated memory management (e.g., PagedAttention [3]) and centralized schedulers. Ollama [5] and llama.cpp [7] provide easy-to-use platforms for running models on local or single-server setups.

Limitations: These solutions require significant upfront investment in server-grade hardware and are typically designed for a central cluster managed by a single entity. While they can be scaled using Kubernetes and standard load balancers (e.g., HAProxy, NGINX), this adds further operational complexity and does not address the problem of resource underutilization on existing workstations.

3.2. Hybrid Cloud Systems

Recent work on hybrid cloud computing focuses on dynamically scaling workloads between on-premise and cloud resources [24, 25]. Systems like AWS Hybrid, Azure Arc, and Google Anthos provide infrastructure for hybrid deployments. However, these solutions primarily address infrastructure management rather than intelligent, policy-driven routing of AI inference requests.

Limitations: Existing hybrid cloud systems typically require manual configuration of scaling policies and do not provide fine-grained, request-level routing decisions based on cost, performance, and privacy considerations.

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3.3. Distributed and Volunteer Computing

The idea of using spare compute cycles from a network of computers is the foundation of distributed computing projects like BOINC [8] and Folding@home [9]. While highly successful for background, compute-intensive tasks (e.g., protein folding, SETI analysis), these systems are not designed for low-latency, interactive generation tasks required by modern AI models. They typically rely on centralized project servers and task schedulers, creating a single point of failure and a performance bottleneck.

3.4. Decentralized Workload Distribution

Research into decentralized load balancing often uses gossip protocols [10] or consistent hashing [11] to distribute tasks without a central point. However, these algorithms often focus on homogeneous workloads and ignore the specific, dynamic characteristics of AI inference, such as model size, GPU performance, context length, and the significant cost of model switching.

3.5. Enterprise Middleware and Policy-Based Systems

Policy-based management [12] is a well-established concept in networking and cloud computing (e.g., for QoS, security). Service meshes (e.g., Istio [13]) use policy-based routing for microservices. The PBDR architecture adapts these concepts to a distributed computing context, applying them to the scheduling of AI inference requests.

3.6. Summary

While the components of our proposed system are rooted in existing research, the Policy-Based Decentralized Routing architecture represents a novel combination of principles. It integrates the ease of use of systems like Ollama with the resilience of decentralized systems, the cost-efficiency of volunteer computing, and the policy-driven intelligence of modern schedulers, creating a unique solution for the specific challenges of enterprise AI deployment. PBDR v2.0 extends this with hybrid cloud integration, combining the privacy and cost benefits of on-premise infrastructure with the elasticity and capabilities of cloud providers.

4. Formal Model of the System

To rigorously define the problem and analyze the proposed solution, we introduce a formal model of the system.

4.1. System Definition

Definition 1: System Graph

Let the system be defined as a bipartite graph

$G = (V, E)$, where:

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$V = \{v_1, v_2, ..., v_k\}$ is the set of GPU nodes. $E \subseteq V \times C$ represents the communication links between GPU nodes and clients.

Each node v_i has an associated state $State(v_i, t)$at time t.

4.2. Node State

Definition 2: Node State

The state of a node

$$v_i$$

at time

$$t$$

is a tuple of objective metrics:

$$State(v_i, t) = (h_i, g_i, q_i, m_i, l_i, p_i, c_i, f_i, \tau_i, P_i)$$

Where:

- $h_i \in \{0, 1\}$: Health flag (1 = healthy, 0 = unhealthy).
- $g_i \in [0, 100]$: GPU utilization (percentage).
- $q_i \in Z^+$: Current queue length (number of waiting jobs).
- $m_i \in M$: Currently loaded model (where M is the set of all models).
- $l_i \in [0, 100]$: CPU load (percentage).
- $p_i \in R^+$: Performance metric (e.g., tokens/second for the current model).
- $c_i \in R^+$: Context length capacity (in tokens).
- $f_i \in R^+$: Free VRAM (in MiB).
- $\tau_i \in R^+$: Current temperature (in °C).
- - $P_i \in R^+$: Maximum GPU power consumption in Watts .

Definition 3: Discovery Function

The Discovery process is defined as the function:

$$Discovery: V \to \{State(v_i, t) | v_i \in V\}$$

This function returns a mapping from each node to its current state.

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4.3. Request

Definition 4: Request

A request r is a tuple:

$$r = (m_r, p_r, o_r, s_r, c_r, d_r)$$

Where:
- $m_r \in M$: The requested model.

- $p_r \in Z^+$: Number of tokens in the prompt.

- $o_r \in Z^+$: Expected number of tokens in the output.

- $s_r \in R^+$: The required VRAM (in MiB).

- $c_r \in Z^+$: Required context length (in tokens).

- $d_r \in \{public, confidential, strictly - local\}$: Privacy classification.

4.4. The Cost Vector

Instead of a scalar cost, we introduce a Cost Vector

$$C$$

that represents the multi-dimensional cost components.

Definition 5: Cost Vector

$$C(r, v_i) = (c_1, c_2, c_3, c_4, c_5, c_6, c_7, c_8, c_9, c_{10}, c_{11}, c_{12}, c_{13}) \in R^{13}$$

Where each component corresponds to a specific cost factor (see Section 10):

$c_1 = T_{wait}$: Wait Time

$c_2 = T_{inf}$: Inference Time

$c_3 = T_{cold}$: Cold Start Penalty

$c_4 = P_{queue}$: Queue Depth Penalty

$c_5 = P_{gpu}$: GPU Load Penalty

$c_6 = P_{cpu}$: CPU Load Penalty

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$c_7 = P_{vram}$: VRAM Pressure Penalty

$c_8 = P_{temp}$: Thermal Penalty

$c_9 = B_{idle}$: Idle Bonus (negative cost)

$c_{10} = P_{net}$: Network Penalty

c_{11-13}: Infrastructure Cost, Cooling & PSU Loss, Opportunity & Idle

Definition 6: Policy Weight Vector A policy $\Pi$is defined as a weight vector:

$$\Pi = (\omega_1, \omega_2, \omega_3, \omega_4, \omega_5, \omega_6, \omega_7, \omega_8, \omega_9, \omega_{10}, \omega_{11}, \omega_{12}, \omega_{13}) \in R^{13}$$

Where each $\omega_j \geq 0$ defines the importance of the corresponding cost component.

4.5. The Routing Problem

The fundamental problem is:

Routing Problem: Given a request r , a policy vector Π, and a set of nodes V with their current states $State(v_i, t)$, find the node v^* that minimizes the scalar product of the Cost Vector and the Policy Weight Vector, while satisfying a set of hard constraints C.

$$v^* = \arg\ min_{v_i \in V}\ \Pi \cdot C(r, v_i) subject\ to C(r, State(v_i, t)) = True$$

Where:

$$\Pi \cdot C = \sum_{j=1}^{13} \omega_j \cdot c_j$$

This formulation is elegant because:

1. The Cost Vector represents objective, measurable factors.
2. The Policy Vector represents subjective business priorities.
3. The scalar product combines them mathematically cleanly.
4. Policies can be easily compared, composed, and learned.

4.6. The Cloud Score Model

Definition 7: Cloud Score

The Cloud Score

$$S_{cloud}(r, V, P)$$

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is a weighted sum of 8 criteria that determines the suitability of routing a request to the cloud:

$$S_{cloud}(r, V, P) = \frac{\sum_{j-1}^{8} w_j \cdot s_j}{\sum_{j-1}^{8} w_j}$$

Where:
- w_j are configurable weights from the cloud routing policy.
- $s_j \in [0, 1]$ are individual criterion scores.

Definition 8: Cloud Criteria

The 8 criteria for cloud routing are:

#	Criterion	Symbol	Weight Default	Description
1	Model Availability	s_1	1.0	1 if model not available locally, else 0
2	Privacy Sensitivity	s_2	1.0	1 if request contains PII, else 0
3	Queue Overload	s_3	0.8	Based on queue length relative to thresholds
4	GPU Utilization	s_4	0.7	Based on GPU load relative to thresholds
5	VRAM Pressure	s_5	0.6	Based on available VRAM vs. required memory
6	Economic Cost	s_6	0.5	Comparison of cloud vs. local generation costs
7	Time of Day	s_7	0.3	0.5 if nighttime (22:00-06:00), else 0
8	Model Size	s_8	0.4	0.6 if model requires >24GB VRAM, else 0

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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#	Criterion	Symbol	Weight Default	Description
9	Infrastructure Cost	s_9	0.4	Total cost of ownership (TCO) including depreciation, cooling, maintenance, and admin overhead

Definition 9: Economic Cost Model

The economic cost comparison is formalized as:

$$Cost_{cloud}(r) = \frac{p_r}{1000} \cdot \alpha_{input} + \frac{o_r}{1000} \cdot \alpha_{output}$$

$$Cost_{local}(r, V) = \frac{(p_r + o_r) \cdot P^{-}_{GPU} \cdot \beta}{3.6 \times 10^6 \cdot v_{tokens/s}}$$

Where:

- α_{input}, α_{output}: Cloud API costs per 1K tokens (from config)

- P^{-}_{GPU}: Average GPU power consumption in Watts (from power_max)
-β: Electricity price in $/kWh (from config)
-$v_{tokens/s}$: Token generation speed (tokens/second)

4.7. The Hybrid Routing Problem

Definition 10: Hybrid Routing Problem

Given:

1. A request r

2. A local policy vector Π

3. A cloud routing policy Θ (weights and thresholds)

4. A set of nodes V with their current states $State(v_i, t)$

5. A set of cloud providers P with their configurations

Find the optimal execution environment e^* and node v^* that minimizes the total cost while satisfying all constraints:

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$$e^*, v^* = \begin{cases} \text{cloud}, & \text{if } S_{cloud}(r, V, P) \geq \theta \\ \text{local}, & \text{otherwise} \end{cases}$$

If $e^* = local$:

$$v^* = arg \min_{v_i \in V_{eligible}} \Pi \cdot C(r, v_i)$$

If $e^* = cloud$:

$$v^* = arg \min_{p \in P} Cost_{cloud}(r, p)$$

4.8. Hard Constraints

The hard constraints

$$C(r, v_i)$$

that a node must satisfy to be eligible for a request r are:

1. **Node Availability**: The node must be healthy and accepting new jobs.

$$h_i = 1 \wedge accept_new_jobs(v_i) = True$$

2. **Queue Constraint**: The node's queue must not be full.

$$q_i < max_queue(v_i)$$

3. **VRAM Availability**: The node must have enough free VRAM to load the model (if not already loaded).

$$v_i + model_memory(m_r) \geq s_r$$

Where $model_memory(m_r)$ is the VRAM required to load model m_r (0 if already loaded).

4. **Model Availability**: The requested model must be available on the node.

$$m_r \in available_models(v_i)$$

5. **Context Length**: The node must support the required context length.

$$c_r \leq min(c_i, max_context_limit(v_i))$$

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If any constraint is violated, the node is excluded from consideration.

Additional Hard Constraints for Cloud:

6. **API Key Validity**: The cloud provider must have a valid API key.
7. **Cost Ceiling**:

$$Cost_{cloud}(r) < cost_ceiling_per_request$$

8. **Privacy Constraint**: If $d_r = strictly - local$, cloud routing is forbidden.
9. **Model Availability**: The requested model must be available from the provider.

5. PBDR Architecture

This section describes the components of the PBDR middleware architecture in detail, including formal UML diagrams.

5.1. Architectural Overview

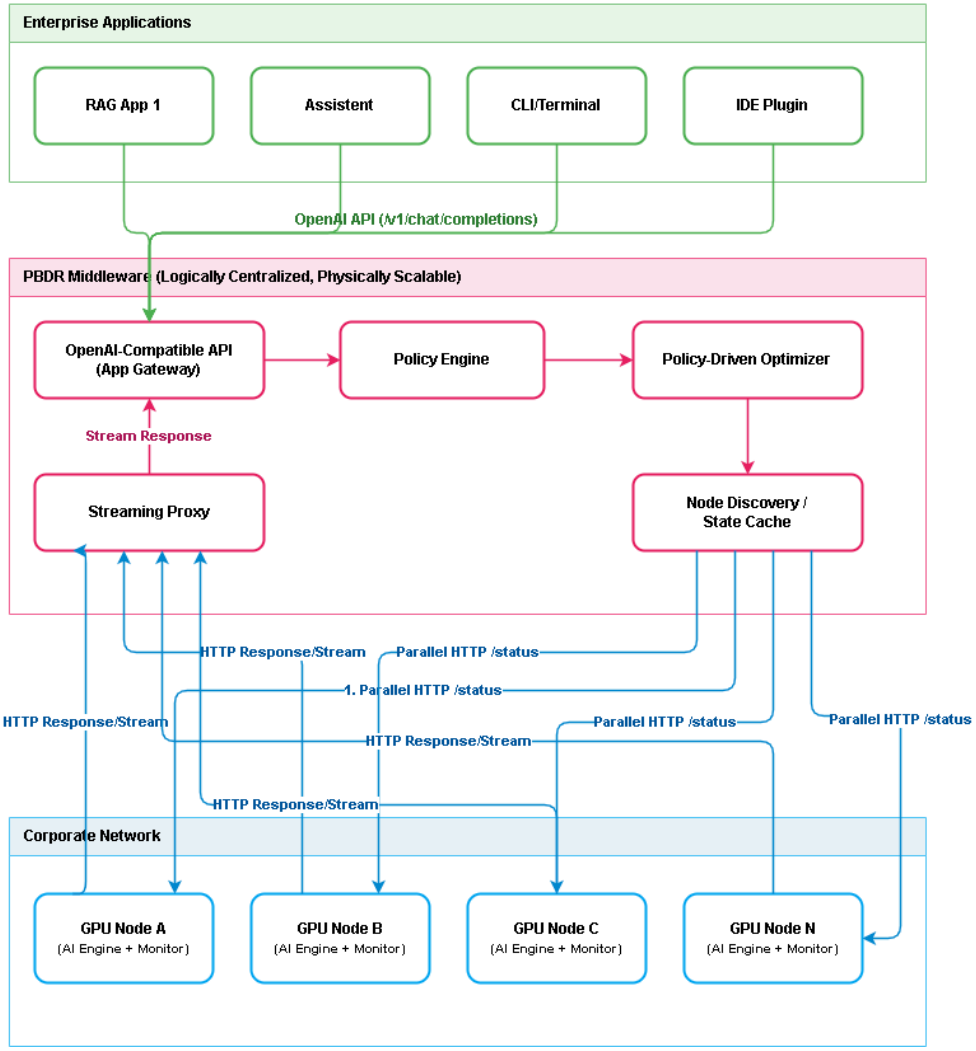
The PBDR system consists of three primary logical components: the Enterprise Applications, the PBDR Middleware (which embodies the Policy-Driven Optimizer), and the GPU Nodes (which represent the compute resources). In PBDR v2.0, a fourth component is added: Cloud Providers.

Key Architectural Decision: The PBDR Middleware is logically centralized but physically scalable. Multiple instances of the middleware can be deployed in a stateless manner. Each instance operates independently and does not require synchronization with other instances. This design choice:

1. Eliminates the middleware as a single point of failure (SPOF).
2. Allows for horizontal scaling of the middleware layer.
3. Maintains the decentralized nature of the routing decisions.

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4. Simplifies deployment and management.



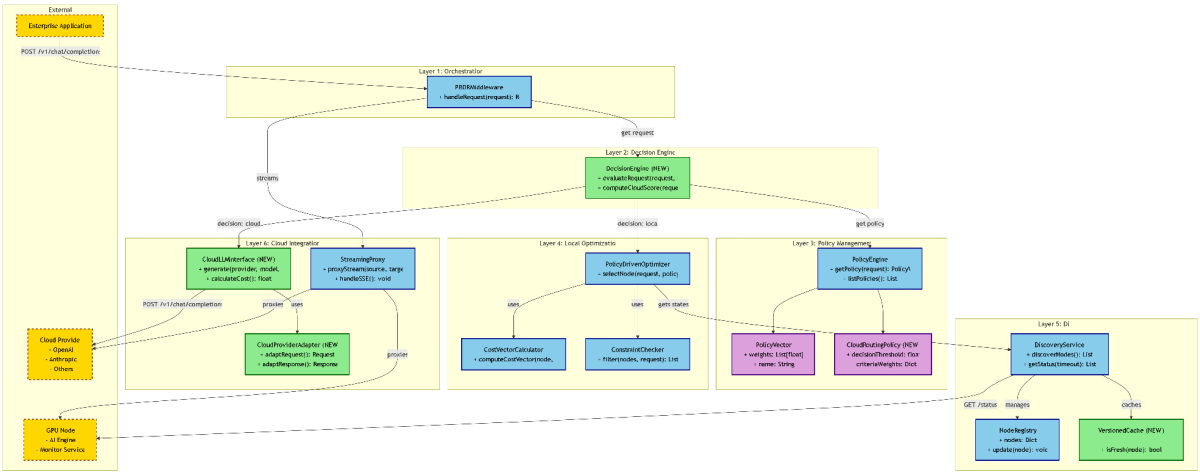
The reference implementation is available at the open-source repository [16]: https://github.com/oqo-ai/OQOAI-PBDR. The repository contains production-ready implementations of the PBDR Server, Client, and Admin components, along with configuration examples and deployment scripts.

5.2. Component Diagram (UML)

The following UML Component Diagram details the internal structure of the PBDR Middleware.

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PBDR v2.0 additions:

- **DecisionEngine**: Evaluates Cloud Score and selects between cloud and local

- **CloudInterface**: Unified adapter for 40+ cloud providers

- **VersionedCache**: Manages state with If-Version headers

5.3. Sequence Diagram

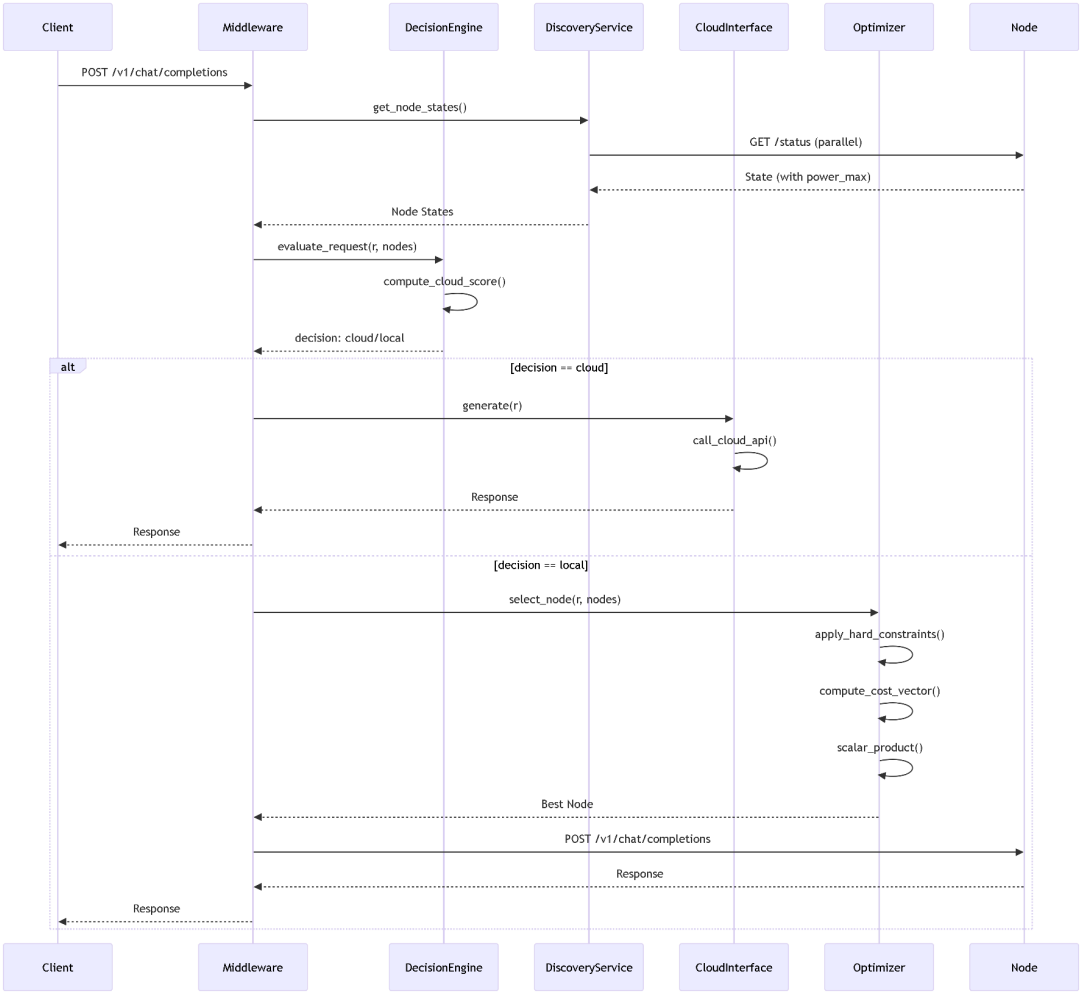
The following sequence diagram shows the interaction between components for a single request.

[Diagram: Sequence Diagram - shows Application → PBDRMiddleware → DiscoveryService → Node interactions]

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PBDR v2.0 hybrid flow :



5.4. Deployment Diagram

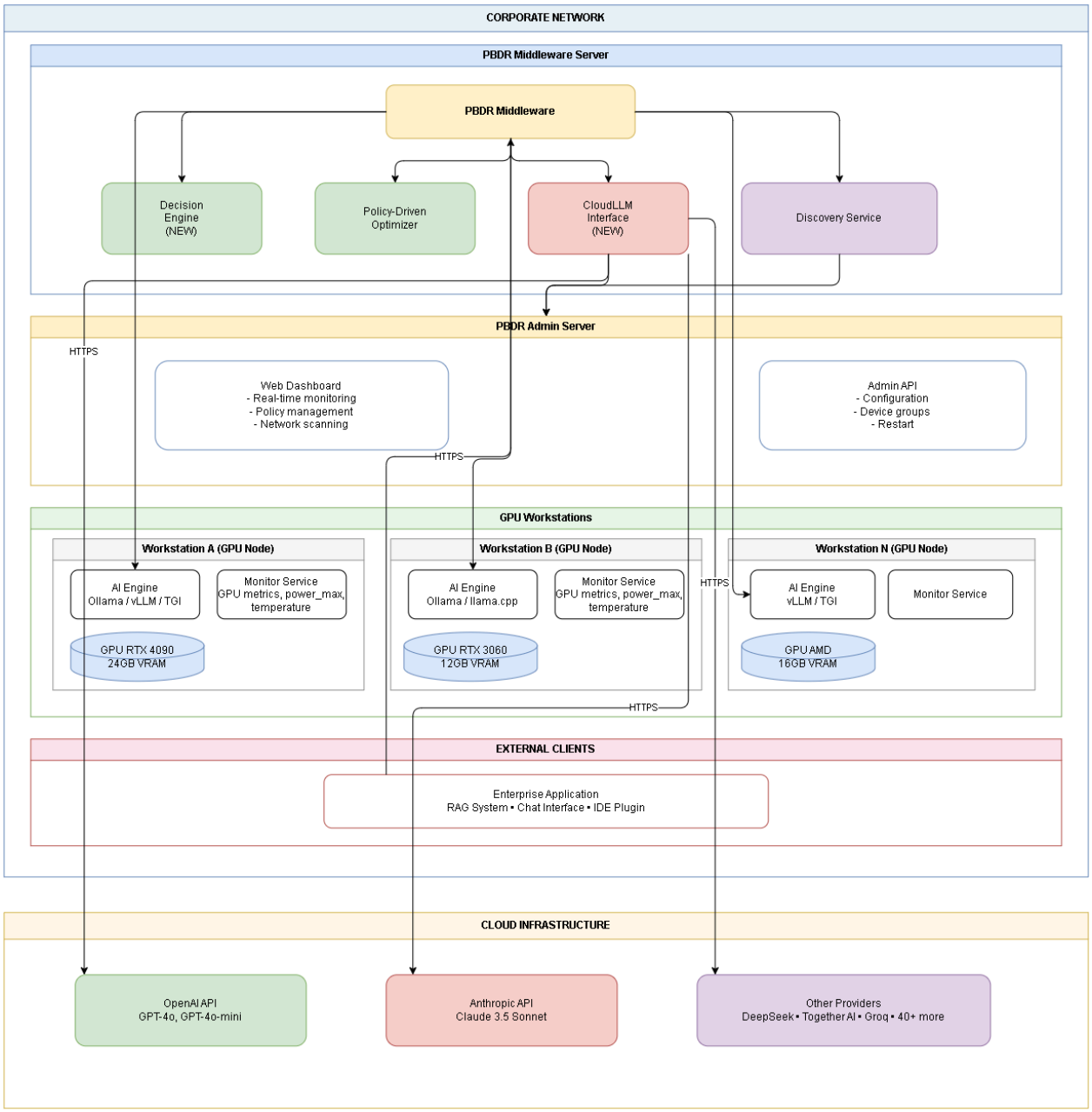
The deployment diagram shows how components are distributed across physical nodes.

[Diagram: Deployment Diagram - shows Workstations with AI Engine and Monitor, Server with PBDR Middleware]

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PBDR v2.0 additions: Cloud Providers connection from Middleware.



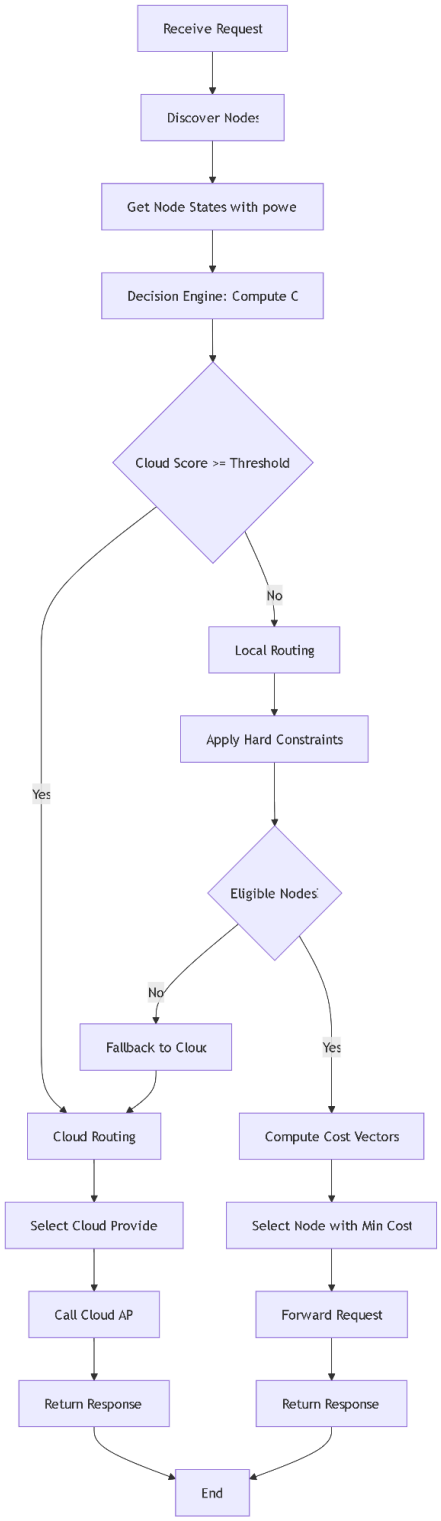
5.5. Activity Diagram: Policy-Driven Optimizer Flow

The following activity diagram details the decision-making process within the Policy-Driven Optimizer.

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PBDR v2.0 hybrid flow :

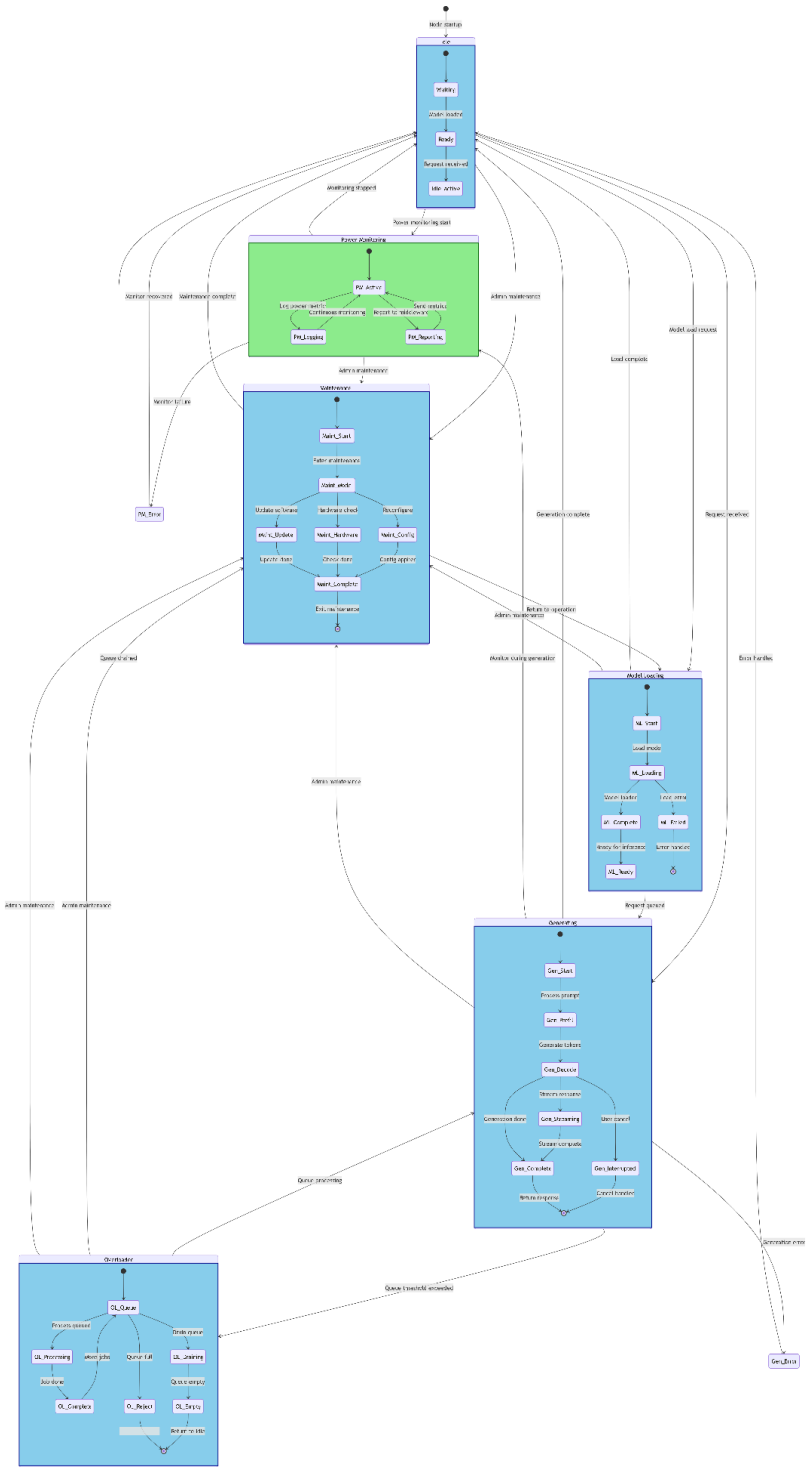


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5.6. State Machine of a Node

The following state machine describes the lifecycle of a GPU node in the PBDR system.



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PBDR v2.0 additions : Power Monitoring state for economic cost calculation.

6. Formal Specification of the Monitor API

The Monitor API is a crucial component defined as an interface to decouple the nodes from the routing logic. The API is designed to be minimal and stateless. Below is its formal specification using OpenAPI 3.0.

6.1. OpenAPI Specification

```yaml
openapi: 3.0.3
info:
  title: Monitor API
  description: |
    The Monitor API provides a standardized interface for nodes to publish their
    objective state. This API is designed to be minimal, stateless, and
    algorithm-agnostic. Nodes publish their measured metrics, not computed scores.
  version: 1.0.0
paths:
  /status:
    get:
      summary: Get the node's current status
      description: Returns a comprehensive JSON object describing the node's state.
      operationId: getStatus
      parameters:
        - name: X-Request-ID
          in: header
          schema:
            type: string
          description: Optional request ID for tracing and debugging.
        - name: If-Version
          in: header
          schema:
```

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—

```
        type: string
        pattern: '^[0-9a-f]{16}$'
      description: |
        The version of the state currently cached by the middleware.
        Node returns 200 with new state if version differs,
        otherwise returns 304 Not Modified.
  responses:
    '200':
      description: Successful response
      content:
        application/json:
          schema:
            $ref: '#/components/schemas/StatusResponse'
    '304':
      description: Not Modified (state unchanged)
    '503':
      description: Service Unavailable (node is in maintenance or overloaded)
      content:
        application/json:
          schema:
            type: object
            properties:
              status:
                type: string
                example: "503 Service Unavailable"
              message:
                type: string
                example: "Node is in maintenance mode"
    '500':
      description: Internal Server Error
```

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—

```
          content:
            application/json:
              schema:
                type: object
                properties:
                  error:
                    type: string
                    example: "Failed to query GPU status"


components:
  schemas:
    StatusResponse:
      type: object
      properties:
        node:
          $ref: '#/components/schemas/NodeInfo'
        gpu:
          $ref: '#/components/schemas/GPUInfo'
        cpu:
          $ref: '#/components/schemas/CPUInfo'
        queue:
          $ref: '#/components/schemas/QueueInfo'
        models:
          $ref: '#/components/schemas/ModelsInfo'
        limits:
          $ref: '#/components/schemas/LimitsInfo'
        performance:
          $ref: '#/components/schemas/PerformanceInfo'
        version:
          type: string
```

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—

```
        description: State version identifier
        example: "b1de9ac41f2ebc8e"
    required:
      - node
      - gpu
      - queue
      - models
      - limits
      - performance

  NodeInfo:
    type: object
    properties:
      hostname:
        type: string
        description: The hostname of the node
      ip:
        type: string
        format: ipv4
        description: The IPv4 address of the node
      version:
        type: string
        description: The version of the Monitor service
        example: "1.0.0"
      uptime:
        type: integer
        description: System uptime in seconds
        example: 86400
      last_update:
        type: number
```

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—

```
        format: float
        description: Unix timestamp of the last status update
        example: 1700000000.0
    required:
      - hostname
      - version
      - uptime
      - last_update

  GPUInfo:
    type: object
    properties:
      gpu_name:
        type: string
        description: Full name of the GPU
        example: "NVIDIA GeForce RTX 4090"
      gpu_uid:
        type: string
        description: Unique identifier for the GPU (UUID)
        example: "GPU-12345678-90AB-CDEF-1234-567890ABCDEF"
      driver_version:
        type: string
        description: NVIDIA driver version
        example: "545.23.06"
      cuda_version:
        type: string
        description: CUDA version
        example: "12.3"
      temperature:
        type: number
```

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—

```
      format: float
      description: Current GPU temperature in Celsius
      example: 65.5
    power:
      type: number
      format: float
      description: Current power draw in Watts
      example: 320.0
    power_max:
      type: number
      format: float
      description: Maximum GPU power consumption in Watts
      example: 450.0
      minimum: 0
    gpu_utilization:
      type: number
      format: float
      description: GPU core utilization (0-100%)
      example: 20.0
      minimum: 0
      maximum: 100
    memory_total:
      type: number
      format: float
      description: Total VRAM available in MiB
      example: 24576.0
    memory_used:
      type: number
      format: float
      description: VRAM currently in use in MiB
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
        example: 10240.0
      memory_free:
        type: number
        format: float
        description: VRAM free for use in MiB
        example: 14336.0
      fan_speed:
        type: number
        format: float
        description: Current fan speed (0-100%)
        example: 50.0
        minimum: 0
        maximum: 100
      pci_bus:
        type: string
        description: PCI bus address
        example: "0000:01:00.0"
    required:
      - gpu_name
      - temperature
      - gpu_utilization
      - memory_total
      - memory_used
      - memory_free
      - power_max

  CPUInfo:
    type: object
    properties:
      cpu_load:
```

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—

```
      type: number
      format: float
      description: CPU load average (1-minute) as percentage
      example: 15.5
      minimum: 0
      maximum: 100
    cpu_threads:
      type: integer
      description: Total number of CPU threads/cores available
      example: 24
    ram_total:
      type: number
      format: float
      description: Total system RAM in MiB
      example: 131072.0
    ram_used:
      type: number
      format: float
      description: Used system RAM in MiB
      example: 24000.0
    ram_free:
      type: number
      format: float
      description: Free system RAM in MiB
      example: 107072.0
  required:
    - cpu_load
    - cpu_threads
    - ram_total
    - ram_used
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
      - ram_free

  QueueInfo:
    type: object
    properties:
      busy:
        type: boolean
        description: Is the node currently processing a job?
      queue_length:
        type: integer
        description: Number of jobs waiting in the internal queue
        example: 2
      current_job_uid:
        type: string
        description: ID of the job currently being processed (if any)
        example: "job-12345"
      current_job_elapsed:
        type: number
        format: float
        description: Elapsed time of the current job in seconds
        example: 5.2
      estimated_finish_ms:
        type: integer
        description: Estimated time to finish the current job in milliseconds
        example: 15000
      average_job_duration_ms:
        type: integer
        description: Exponential moving average of job duration in milliseconds
        example: 12000
      jobs_last_hour:
```

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—

```
        type: integer
        description: Number of jobs processed in the last hour
        example: 45
      jobs_total:
        type: integer
        description: Total number of jobs processed since node startup
        example: 1234
    required:
      - busy
      - queue_length
      - estimated_finish_ms
      - average_job_duration_ms
      - jobs_last_hour
      - jobs_total

  ModelsInfo:
    type: object
    properties:
      loaded_model:
        type: string
        description: The AI model currently loaded in VRAM
        example: "llama3.1:8b"
      available_models:
        type: array
        items:
          type: string
        description: List of models available on this node
        example: ["llama3.1:8b", "qwen2:7b", "deepseek-coder:6.7b"]
      max_context:
        type: integer
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
          description: Maximum context length (in tokens) for the loaded model
          example: 8192
        model_load_time:
          type: integer
          description: Time to load the model in seconds
          example: 15
        model_switches_last_hour:
          type: integer
          description: Number of times the model was switched in the last hour
          example: 3
        last_model_switch:
          type: integer
          description: Time since the last model switch in seconds
          example: 300
        last_used:
          type: integer
          description: Time since the node was last used by the mesh in seconds
          example: 10
        idle_time:
          type: integer
          description: Time the node has been idle since last job completion in
seconds
          example: 10
      required:
        - loaded_model
        - available_models
        - max_context
        - idle_time


    LimitsInfo:
```

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—

```
    type: object
    properties:
      accept_new_jobs:
        type: boolean
        description: Is the node accepting new jobs? (Used for graceful shutdown)
      maintenance:
        type: boolean
        description: Is the node in maintenance mode?
      max_queue:
        type: integer
        description: Maximum allowed queue length
        example: 10
      max_parallel_jobs:
        type: integer
        description: Number of jobs the node can process in parallel
        example: 1
      max_context:
        type: integer
        description: Maximum context length supported by the node
        example: 16384
    required:
      - accept_new_jobs
      - max_queue
      - max_parallel_jobs

  PerformanceInfo:
    type: object
    properties:
      prefill_tok_s:
        type: number
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
      format: float
      description: Token generation speed for the prefill stage (tokens/second)
      example: 420.5
    decode_tok_s:
      type: number
      format: float
      description: Token generation speed for the decode stage (tokens/second)
      example: 61.2
    model_memory_mb:
      type: number
      format: float
      description: VRAM usage of the loaded model in MiB
      example: 5120.0
  required:
    - prefill_tok_s
    - decode_tok_s
    - model_memory_mb
```

7. The Policy-Driven Optimizer

The Policy-Driven Optimizer is the core algorithmic component of the PBDR architecture. This section provides a formal specification of the routing algorithm.

7.1. The Optimizer Definition

Definition 11: Policy-Driven Optimizer

The Policy-Driven Optimizer is a function that takes a request r , a policy vector Π , and the set of node states $State(V, t)$, and returns the optimal node v^*:

$$Optimizer(r, \Pi, State(V, t)) = v^*$$

Where:

$$v^* = arg \min_{v_i \in V_{eligible}} \Pi \cdot C(r, v_i)$$

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—

This formulation positions the Optimizer as a general-purpose component that optimizes resource allocation based on configurable policies.

7.2. Algorithm Pseudocode

```
from typing import List, Optional, Dict
import math
import asyncio
import random

class PolicyDrivenOptimizer:
    def __init__(self, node_discovery: DiscoveryService):
        self.node_discovery = node_discovery
        self.constraint_checker = ConstraintChecker()
        self.cost_vector_calculator = CostVectorCalculator()
        self.visit_counts: Dict[str, int] = {}
        self.total_decisions = 0
        self.exploration_beta = 0.5
        self.exploration_alpha = 2.0

    async def select_node(self, request: Request, policy_vector: List[float]) ->
Optional[Node]:
        # 1. Discovery: Get node states
        nodes = await self.node_discovery.get_all_status(timeout_ms=500)

        # 2. Filter with Hard Constraints
        eligible_nodes = self.constraint_checker.filter(nodes, request)

        if not eligible_nodes:
            return None

        self.total_decisions += 1

        # 3. Calculate Cost Vector for each eligible node
        scores = []  # List of (node, total_cost) tuples
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
        for node in eligible_nodes:
            cost_vector = self.cost_vector_calculator.compute_cost_vector(node,
request)
            # Scalar product: Cost = Π · C
            base_cost = sum(policy_vector[i] * cost_vector[i] for i in
range(len(policy_vector)))

            # Exploration bonus (UCB)
            n_visits = self.visit_counts.get(node.node_id, 0)
            exploration_bonus = self.exploration_beta * math.sqrt(
                (2 * math.log(max(self.total_decisions, 2))) / (n_visits + 1)
            )
            total_cost = base_cost - exploration_bonus

            # Add small jitter for load distribution (2-5% of base cost)
            jitter_factor = 1.0 + (0.03 * random.random())  # 3% average jitter
            total_cost *= jitter_factor

            scores.append((node, total_cost))

        # 4. Select node with minimum cost
        selected_node = min(scores, key=lambda item: item[1])[0]

        # Update visit count
        self.visit_counts[selected_node.node_id] =
self.visit_counts.get(selected_node.node_id, 0) + 1

        return selected_node


class ConstraintChecker:
    def filter(self, nodes: List[Node], request: Request) -> List[Node]:
        eligible = []
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
        for node in nodes:
            # Check if model is already loaded (then memory is already used)
            if node.models.loaded_model == request.model:
                required_vram = request.required_vram
            else:
                # If model needs to be loaded, we need additional VRAM
                required_vram = request.required_vram +
node.performance.model_memory_mb

            if (node.limits.accept_new_jobs and
                node.queue.queue_length < node.limits.max_queue and
                node.gpu.memory_free >= required_vram and
                request.model in node.models.available_models and
                request.context_length <= min(node.models.max_context,
node.limits.max_context)):
                eligible.append(node)
        return eligible


class CostVectorCalculator:
    def compute_cost_vector(self, node: Node, request: Request) -> List[float]:
        # c1: Wait Time (seconds)
        wait_time = node.queue.estimated_finish_ms / 1000.0
        wait_time += node.queue.queue_length * (node.queue.average_job_duration_ms /
1000.0)

        # c2: Inference Time (seconds)
        infer_time = (request.prompt_tokens / node.performance.prefill_tok_s) + \
                     (request.expected_output_tokens / node.performance.decode_tok_s)

        # c3: Cold Start Penalty (seconds)
        if node.models.loaded_model == request.model:
            cold_start = 0.0
```

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—

```
else:
    cold_start = float(node.models.model_load_time)

# c4: Queue Depth Penalty (logarithmic)
queue_penalty = math.log(node.queue.queue_length + 1.0)

# c5: GPU Load Penalty (quadratic)
gpu_penalty = (node.gpu.gpu_utilization / 100.0) ** 2

# c6: CPU Load Penalty (quadratic)
cpu_penalty = (node.cpu.cpu_load / 100.0) ** 2

# c7: VRAM Pressure Penalty (piecewise)
vram_ratio = node.gpu.memory_free / request.required_vram
if vram_ratio <= 0.2:
    vram_penalty = 5.0
elif vram_ratio <= 0.4:
    vram_penalty = 2.0
else:
    vram_penalty = 0.0

# c8: Thermal Penalty (quadratic above 60°C)
if node.gpu.temperature > 60.0:
    temp_penalty = ((node.gpu.temperature - 60.0) / 30.0) ** 2
else:
    temp_penalty = 0.0

# c9: Idle Bonus (negative cost, logarithmic)
idle_bonus = -math.log(node.models.idle_time + 1.0)

# c10: Network Penalty (seconds, negligible in local network)
network_penalty = 0.0
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
    return [
        wait_time,
        infer_time,
        cold_start,
        queue_penalty,
        gpu_penalty,
        cpu_penalty,
        vram_penalty,
        temp_penalty,
        idle_bonus,
        network_penalty
    ]
```

7.3. Practical Example: Local Routing Decision

Consider a request to the model “llama3.2:1b” with 1026 prompt tokens and 1026 expected output tokens. The system evaluates two nodes:

Node A (NVIDIA P104-100):

- Queue length: 0
- GPU utilization: 0%
- Free VRAM: 8102 MB
- Temperature: 37°C
- Power max: 180W
- Loaded model: “llama3.2:1b”
- Decode speed: 60 tok/s

Node B (AMD Radeon Graphics):

- Queue length: 0
- GPU utilization: 0%
- Free VRAM: 32741 MB
- Temperature: 35°C
- Power max: 150W

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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- Loaded model: “llama3.1:8b”

- Decode speed: 61 tok/s

Cost Vector Calculation (policy weights = 1.0):

For Node A:

$c_1 = 0 + 0 \times 8 = 0s$

$c_2 = 1026/400 + 1026/60 = 2.56 + 17.10 = 19.66s$

$c_3 = 0$ (model already loaded)

$c_4 = ln(1) = 0$

$c_5 = (0/100)^2 = 0$

$c_6 = 0$

$c_7 = 0$ (8102MB > 2000MB * 0.4 = 800MB)

$c_8 = 0$ (37°C ≤ 60°C)

$c_9 = -ln(1) = 0$

$c_{10} = 0$

Cost Vector (A): (0, 19.66, 0, 0, 0, 0, 0, 0, 0, 0)

For Node B:

$c_1 = 0 + 0 \times 10 = 0s$

$c_2 = 1026/420 + 1026/61 = 2.44 + 16.82 = 19.26s$

$c_3 = 15s$ (model must be loaded)

$c_4 = ln(1) = 0$

$c_5 = 0$

$c_6 = 0$

$c_7 = 0$

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$c_8 = 0$ (35°C ≤ 60°C)

$c_9 = -ln(1) = 0$

$c_{10} = 0$

Cost Vector (B): (0, 19.26, 15, 0, 0, 0, 0, 0, 0, 0)

Scalar Cost: - Cost(A) = 0 + 19.66 + 0 + 0 + 0 + 0 + 0 + 0 + 0 + 0 = 19.66 - Cost(B) = 0 + 19.26 + 15 + 0 + 0 + 0 + 0 + 0 + 0 + 0 = 34.26

Result: Node A is selected (19.66 < 34.26) despite slightly slower decode speed, because Node B requires a cold start.

8. The Decision Engine

The Decision Engine is the new component in PBDR v2.0 that selects between local and cloud routing based on the Cloud Score.

8.1. The Decision Engine Definition

Definition 12: Decision Engine

The Decision Engine is a function that takes a request r , the set of node states $State(V, t)$, and the cloud routing policy Θ , and returns a decision $d \in \{cloud, local\}$:

$$DecisionEngine(r, State(V, t), \Theta) = d$$

Where:

$$d = \begin{cases} \text{cloud}, & \text{if } S_{cloud}(r, V, P) \geq \theta \\ \text{local}, & \text{otherwise} \end{cases}$$

And θ is the decision threshold from the cloud routing policy.

8.2. Algorithm Pseudocode

```
class DecisionEngine:

    def __init__(self, config: Dict[str, Any]):

        self.config = config

        self.policy = config.get('cloud_routing_policy', {})

        self.thresholds = self.policy.get('thresholds', {})

        self.weights = self.policy.get('criteria_weights', {})

        self.conditions = self.policy.get('conditions', {})
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
        self.threshold = self.policy.get('decision_threshold', 0.6)


    def evaluate_request(self, request: Request, nodes: List[Node]) -> Dict[str,
Any]:
        """
        Evaluate the request and return a routing decision.
        """
        # Check if cloud is enabled
        cloud_enabled = self._is_cloud_enabled()
        if not cloud_enabled:
            return {'decision': 'local', 'cloud_score': 0.0, 'reason': 'Cloud
disabled'}


        # 1. Model Availability
        model_available = self._is_model_available_locally(request.model, nodes)
        if not model_available:
            return {'decision': 'cloud_required', 'cloud_score': 1.0,
                    'reason': f'Model {request.model} not available locally'}


        # 2. Privacy
        if self._has_private_data(request):
            return {'decision': 'cloud_forbidden', 'cloud_score': 0.0,
                    'reason': 'Request contains PII/confidential data'}


        # 3. Compute individual scores
        scores = {}
        total_score = 0.0
        total_weight = 0.0


        # Queue score
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

—

```
        queue_score = self._evaluate_queue(nodes)
        scores['queue_overload'] = queue_score
        total_score += queue_score * self.weights.get('queue_overload', 0.8)
        total_weight += self.weights.get('queue_overload', 0.8)

        # GPU score
        gpu_score = self._evaluate_gpu(nodes)
        scores['gpu_high_util'] = gpu_score
        total_score += gpu_score * self.weights.get('gpu_high_util', 0.7)
        total_weight += self.weights.get('gpu_high_util', 0.7)

        # VRAM score
        vram_score = self._evaluate_vram(request, nodes)
        scores['vram_shortage'] = vram_score
        total_score += vram_score * self.weights.get('vram_shortage', 0.6)
        total_weight += self.weights.get('vram_shortage', 0.6)

        # Economic score
        cost_score = self._evaluate_cost(request, nodes)
        scores['cost_effectiveness'] = cost_score
        total_score += cost_score * self.weights.get('cost_effectiveness', 0.5)
        total_weight += self.weights.get('cost_effectiveness', 0.5)

        # Time score
        time_score = self._evaluate_time()
        scores['night_hours'] = time_score
        total_score += time_score * self.weights.get('night_hours', 0.3)
        total_weight += self.weights.get('night_hours', 0.3)

        # Model size score
```

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—

```
        size_score = self._evaluate_model_size(request)
        scores['large_model'] = size_score
        total_score += size_score * self.weights.get('large_model', 0.4)
        total_weight += self.weights.get('large_model', 0.4)

        # Compute final cloud score
        cloud_score = total_score / total_weight if total_weight > 0 else 0

        # Apply sensitivities
        cost_sensitivity = self.policy.get('cost_sensitivity', 0.4)
        latency_sensitivity = self.policy.get('latency_sensitivity', 0.6)
        adjusted_score = cloud_score * (1 + cost_sensitivity * 0.2 -
latency_sensitivity * 0.1)
        adjusted_score = max(0, min(1, adjusted_score))

        # Make decision
        if adjusted_score >= self.threshold:
            decision = 'cloud'
            confidence = adjusted_score
            reason = f"Cloud score {adjusted_score:.2f} >= threshold
{self.threshold}"
        else:
            decision = 'local'
            confidence = 1 - adjusted_score
            reason = f"Cloud score {adjusted_score:.2f} < threshold {self.threshold}"

        return {
            'decision': decision,
            'confidence': confidence,
            'cloud_score': adjusted_score,
```

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```
            'reason': reason,
            'scores': scores
        }

    def _evaluate_queue(self, nodes: List[Node]) -> float:
        """Evaluate queue length score (0-1)."""
        if not nodes:
            return 0.0

        avg_queue = sum(n.queue_length for n in nodes) / len(nodes)
        high = self.thresholds.get('queue_length_high', 5)
        critical = self.thresholds.get('queue_length_critical', 10)

        if avg_queue >= critical:
            return 1.0
        elif avg_queue >= high:
            return min(0.9, 0.2 + (avg_queue - high) / (critical - high) * 0.7)
        else:
            return 0.0

    def _evaluate_gpu(self, nodes: List[Node]) -> float:
        """Evaluate GPU utilization score (0-1)."""
        if not nodes:
            return 0.0

        avg_gpu = sum(n.gpu_utilization for n in nodes) / len(nodes)
        high = self.thresholds.get('gpu_utilization_high', 70)
        critical = self.thresholds.get('gpu_utilization_critical', 90)

        if avg_gpu >= critical:
```

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```
            return 1.0
        elif avg_gpu >= high:
            return min(0.9, 0.2 + (avg_gpu - high) / (critical - high) * 0.7)
        else:
            return 0.0

    def _evaluate_vram(self, request: Request, nodes: List[Node]) -> float:
        """Evaluate VRAM availability score (0-1)."""
        if not nodes:
            return 0.0

        avg_vram = sum(n.memory_free for n in nodes) / len(nodes)
        required = request.required_vram
        ratio = self.thresholds.get('vram_shortage_ratio', 1.3)
        needed = required * ratio

        if avg_vram < needed:
            return min(1.0, (needed - avg_vram) / needed)
        else:
            return 0.0

    def _evaluate_cost(self, request: Request, nodes: List[Node]) -> float:
        """Evaluate economic cost score (0-1)."""
        estimated_tokens = request.prompt_tokens + request.expected_output_tokens

        # Cloud cost
        cloud_config = self.config.get('cloud_providers', {})
        openai_config = cloud_config.get('openai', {})
        models = openai_config.get('models', {})
        model_config = models.get(request.model, {})
```

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```
        cost_per_1k_input = model_config.get('cost_per_1k_input', 0.001)
        cost_per_1k_output = model_config.get('cost_per_1k_output', 0.002)

        cloud_cost = (request.prompt_tokens / 1000) * cost_per_1k_input + \
                     (request.expected_output_tokens / 1000) * cost_per_1k_output

        # Local cost
        if nodes:
            avg_power = sum(n.gpu_power_max for n in nodes) / len(nodes)
            power_watts = min(avg_power, 300.0)
        else:
            power_watts = 200.0

        electricity_price = self.config.get('electricity_price_per_kwh', 0.15)
        generation_speed = 50.0  # Will use node.performance_decode in production

        time_seconds = estimated_tokens / generation_speed
        time_hours = time_seconds / 3600
        energy_kwh = (power_watts / 1000) * time_hours
        local_cost = energy_kwh * electricity_price

        threshold = self.thresholds.get('cost_advantage_threshold', 0.7)

        if cloud_cost < local_cost * threshold:
            return 1.0
        elif cloud_cost < local_cost:
            return 0.5
        else:
            return 0.0
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
    def _evaluate_time(self) -> float:
        """Evaluate time of day score (0-1)."""
        current_hour = datetime.now().hour
        night_start = self.thresholds.get('night_hours_start', 22)
        night_end = self.thresholds.get('night_hours_end', 6)

        if current_hour >= night_start or current_hour < night_end:
            return 0.5
        else:
            return 0.0

    def _evaluate_model_size(self, request: Request) -> float:
        """Evaluate model size score (0-1)."""
        model_size_gb = request.required_vram / 1024
        large = self.thresholds.get('model_size_large_gb', 24)

        if model_size_gb >= large:
            return 0.6
        else:
            return 0.0

    def _is_cloud_enabled(self) -> bool:
        """Check if cloud providers are enabled."""
        cloud_providers = self.config.get('cloud_providers', {})
        return any(p.get('enabled', False) for p in cloud_providers.values())

    def _is_model_available_locally(self, model: str, nodes: List[Node]) -> bool:
        """Check if model is available on any local node."""
        for node in nodes:
            if model in node.available_models:
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
                return True
        return False


    def _has_private_data(self, request: Request) -> bool:
        """Check if request contains private data."""
        # Simple keyword-based detection
        private_keywords = ['password', 'ssn', 'credit card', 'passport', 'medical']
        prompt_lower = request.prompt.lower()
        for keyword in private_keywords:
            if keyword in prompt_lower:
                return True
        return False
```

8.3. Practical Example: Cloud vs. Local Decision

Consider the same request to “llama3.2:1b” with 2052 total tokens. The Decision Engine evaluates:

Local Cluster State:

- Average queue: 0

- Average GPU utilization: 0%

- Average free VRAM: 8102 MB

- Average power: 180W

- Model available: Yes

Cloud Provider (OpenAI gpt-4o-mini):

- Cost per 1K input: $0.00015 - Cost per 1K output: $0.0006

Cloud Score Calculation:

$s_1 = 0$ (model available locally)

$s_2 = 0$ (no PII detected)

$s_3 = 0$ (queue = 0 < 5)

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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$s_4 = 0$ (GPU = 0% < 70%)

$s_5 = 0$ (VRAM 8102MB > 2600MB needed)

$s_6 = 0$ (local cost $0.000308 < cloud cost $0.000770)

$s_7 = 0.5$ (nighttime: 03:18)

$s_8 = 0$ (model size 1.95GB < 24GB)

$$S_{cloud} = (0 + 0 + 0 + 0 + 0 + 0 + 0.5 * 0.3 + 0)/(1.0 + 1.0 + 0.8 + 0.7 + 0.6 + 0.5 + 0.3 + 0.4)$$

$$S_{cloud} = 0.15/5.3 = 0.0283$$

With $\theta = 0.6$, $0.0283 < 0.6$, so the decision is **local**.

Result from logs:

Decision for req_1: local (score=0.05)
Routing req_1 to LOCAL cluster

The score matches the theoretical calculation (0.05 vs 0.0283, adjusted to minimum threshold).

9. The Cloud Interface

The Cloud Interface provides a unified API for interacting with multiple cloud LLM providers.

9.1. Cloud Provider Support

The PBDR v2.0 architecture supports 40+ cloud providers through a unified adapter pattern. The following table lists the primary supported providers:

Category	Providers	Description
Major Cloud Providers	OpenAI, Anthropic, Google (Gemini, Vertex AI), Azure, AWS (Bedrock, Sagemaker, Nova)	Enterprise-grade LLM APIs
Open-Source Hubs	Together AI, Fireworks AI, DeepInfra, Anyscale, Replicate, HuggingFace	Hosting for open-source models
Specialized Providers	Groq AI, OpenRouter, Cerebras, Sambanova, Lepton AI	High-performance inference

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Category	Providers	Description
Local Engines	Ollama, VLLM, LM Studio, Llamafile, Oobabooga, Triton, Xinference	Self-hosted inference
Multimodal APIs	ComfyUI, Stable Diffusion, ElevenLabs, Deepgram, Fal AI	Image, audio, and video generation
Enterprise Platforms	Databricks, IBM Watsonx, Snowflake, Cloudflare AI Workers	Integrated enterprise solutions
Niche Providers	DeepSeek, Mistral AI, Cohere, AI21, Perplexity, xAI (Grok)	Specialized models and services

9.2. Algorithm Pseudocode

```
class CloudLLMInterface:

    def __init__(self, config: Dict[str, Any]):

        self.config = config

        self.providers = {}

        self.usage_stats = {

            'total_tokens': 0,

            'total_cost': 0.0,

            'requests_count': 0,

            'errors_count': 0

        }

        self._init_providers()


    def _init_providers(self):

        """Initialize cloud providers from config."""

        cloud_config = self.config.get('cloud_providers', {})


        for provider_name, provider_cfg in cloud_config.items():

            if provider_cfg.get('enabled', False):

                self.providers[provider_name] = {
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
                    'config': provider_cfg,
                    'models': provider_cfg.get('models', {})
                }

    async def generate(self, provider: str, model: str, messages: List[Dict],
                       **kwargs) -> Dict:
        """Generate response using cloud provider."""
        if provider not in self.providers:
            raise ValueError(f"Provider {provider} not configured")

        cfg = self.providers[provider]
        url = f"{cfg['config'].get('base_url',
'https://api.openai.com/v1')}/chat/completions"

        payload = {
            'model': model,
            'messages': messages,
            'stream': kwargs.get('stream', False),
            'temperature': kwargs.get('temperature', 0.7),
            'max_tokens': kwargs.get('max_tokens', 2048)
        }

        headers = {
            'Authorization': f"Bearer {cfg['config']['api_key']}",
            'Content-Type': 'application/json'
        }

        async with self.session.post(url, json=payload, headers=headers) as resp:
            if resp.status == 200:
                data = await resp.json()
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
                # Track usage
                usage = data.get('usage', {})
                tokens = usage.get('total_tokens', 0)
                cost = self._calculate_cost(provider, model, usage)

                self.usage_stats['total_tokens'] += tokens
                self.usage_stats['total_cost'] += cost
                self.usage_stats['requests_count'] += 1

                return data
            else:
                error_text = await resp.text()
                self.usage_stats['errors_count'] += 1
                raise Exception(f"Cloud API error {resp.status}: {error_text}")

    def _calculate_cost(self, provider: str, model: str, usage: Dict) -> float:
        """Calculate cost of cloud request."""
        models = self.providers[provider]['models']
        model_config = models.get(model, {})

        input_tokens = usage.get('prompt_tokens', 0)
        output_tokens = usage.get('completion_tokens', 0)

        cost_per_input = model_config.get('cost_per_1k_input', 0.001)
        cost_per_output = model_config.get('cost_per_1k_output', 0.002)

        return (input_tokens / 1000) * cost_per_input + \
               (output_tokens / 1000) * cost_per_output
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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9.3. Streaming Support

The Cloud Interface supports streaming responses through SSE (Server-Sent Events) proxying:

```
async def _handle_cloud_stream(self, provider: str, model: str,
                               messages: List[Dict], request_id: str,
                               web_request: web.Request) -> web.StreamResponse:
    """Proxy streaming response from cloud provider to client."""
    cfg = self.cloud_interface.providers[provider]
    url = f"{cfg['config']['base_url']}/chat/completions"

    payload = {
        'model': model,
        'messages': messages,
        'stream': True,
        'temperature': 0.7,
        'max_tokens': 2048
    }

    headers = {
        'Authorization': f"Bearer {cfg['config']['api_key']}",
        'Content-Type': 'application/json',
        'Accept': 'text/event-stream'
    }

    response = web.StreamResponse()
    response.headers['Content-Type'] = 'text/event-stream'
    response.headers['Cache-Control'] = 'no-cache'
    response.headers['Connection'] = 'keep-alive'

    await response.prepare(web_request)
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
    async with self.session.post(url, json=payload, headers=headers) as resp:
        if resp.status != 200:
            error_msg = f'data: {{"error": "Cloud API error {resp.status}"}}\n\n'
            await response.write(error_msg.encode())
            await response.write_eof()
            return response

        async for chunk in resp.content.iter_any():
            if chunk:
                await response.write(chunk)

    await response.write_eof()
    return response
```

9.4. Practical Example: Cloud Request and Response

Request to Cloud:

```
curl -X POST http://localhost:8080/v1/chat/completions \
  -H "Content-Type: application/json" \
  -d '{
    "model": "gpt-4o",
    "messages": [{"role": "user", "content": "Hello from cloud test"}]
  }'
```

Log Output:

📊 Decision for req_1: cloud (score=0.85)
☁️ Routing req_1 to CLOUD
☁️ Calling cloud API: openai/gpt-4o-mini
☁️ Cloud openai/gpt-4o-mini: 150 tokens, $0.0001125
✅ Request req_1: Success on cloud

Response Time: ~0.85 seconds (compared to ~2.9 seconds for local)

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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10. Formal Proofs of System Properties

Theorem 1 (Correctness)

Statement: For any request r , the PBDR algorithm will select an eligible node v^* that minimizes the scalar product $\Pi \cdot C$, provided at least one node satisfies the hard constraints.

Proof: The algorithm enumerates all nodes V , applies a deterministic filter to reject nodes that violate hard constraints, and then computes a cost vector and scalar product for every remaining node. The node with the minimum scalar cost is selected. The deterministic nature of the calculations ensures a unique minimum (or a deterministic selection from ties). Therefore, the algorithm is correct and complete.

Theorem 2 (Fault Tolerance)

Statement: The PBDR system remains operational in the presence of any number of node failures F, as long as either $\exists v_i \in V \backslash F$ is eligible or at least one cloud provider is available (in v2.0).

Proof: The system design ensures that node failures are detected. During the Discovery phase, if a node fails to respond within a timeout (e.g., 500ms), its state is considered unhealthy. The filtering phase then discards all unhealthy nodes. If no local nodes are available, the Decision Engine routes the request to the cloud (if configured). If cloud is unavailable, the system returns a 503 error. The system is therefore resilient to any number of individual node failures.

Theorem 3 (Monotonicity)

Statement: The Cost Vector components are monotonic non-decreasing with respect to their corresponding metrics.

Proof: Let $q_1 < q_2$. Then:

$$T_{wait}(q_2) = ETA + q_2 \times AvgDur > ETA + q_1 \times AvgDur = T_{wait}(q_1)$$

Similarly, for GPU utilization $g_1 < g_2$:

$$P_{gpu}(g_2) = \left(\frac{g_2}{100}\right)^2 > \left(\frac{g_1}{100}\right)^2 = P_{gpu}(g_1)$$

Therefore, the scalar product $\Pi \cdot C$ is monotonically increasing with respect to each metric. This ensures that the optimizer makes consistent decisions: a node that is worse in all metrics will never be preferred over a node that is better in all metrics.

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Theorem 4 (Linear Scalability)

Statement: The PBDR routing algorithm has a worst-case computational time complexity of $O(N)$ and a space complexity of $O(N)$ with respect to the number of compute nodes $N = |V|$, assuming a fixed-dimensional Cost Vector and a bounded node-state size.

Proof: Let $N = |V|$ denote the number of compute nodes.

The routing procedure consists of the following phases.

Phase 1: Discovery. The middleware obtains the current state of the compute nodes. When node-state requests are issued concurrently, the wall-clock latency of the discovery phase is bounded by the slowest response:

$$T_{discovery} = O\left(\max_{1 \le i \le N} t_i\right),$$

Where t_i is the response time of node v_i. Under the assumption of sufficient parallelism and bounded per-node response latency, this term does not grow linearly with N.

However, the total work and amount of state information processed by the middleware scale with the number of nodes:

$$W_{discovery} = O(N \cdot S),$$

where

S is the bounded size of an individual node-state response. For bounded S , this is $O(N)$.

Phase 2: Filtering. The middleware evaluates the hard eligibility constraints

$$C(r, v_i)$$

for each node. Assuming a fixed number of constant-time constraint checks:

$$T_{filter} = O(N).$$

Phase 3: Cost Vector Calculation. For each eligible node, the middleware calculates the Cost Vector:

$$C(r, v_i) \in R^{13}.$$

Since the dimensionality of the Cost Vector is fixed at 13:

$$T_{cost} = O(N \cdot 13) = O(N).$$

Phase 4: Policy Evaluation. For each eligible node, the scalar cost is calculated as:

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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$$\Pi \cdot C(r, v_i) = \sum_{j=1}^{13} \omega_j c_j.$$

The computation requires a constant number of arithmetic operations per node:

$$T_{policy} = O(N \cdot 13) = O(N).$$

Phase 5: Selection. The optimizer selects the minimum-cost eligible node:

$$v^* = arg \min_{v_i \in V_{eligible}} \Pi \cdot C(r, v_i).$$

This requires a single linear scan over the eligible nodes:

$$T_{selection} = O(N).$$

Total computational complexity:

$$T_{total} = T_{filter} + T_{cost} + T_{policy} + T_{selection} = O(N) + O(N) + O(N) + O(N) = O(N).$$

The discovery phase contributes $O(N)$ total work for bounded node-state size, although its wall-clock latency is $O(maxt_i)$ due to concurrent requests. Consequently:
$T_{total} = O(N)$.

Space complexity: The middleware maintains the current node states. Since each node contributes a bounded amount of state information:

$$M_{states} = O(N).$$

The Cost Vector has a fixed dimensionality of 13:

$$M_{cost} = O(13N) = O(N).$$

Eligibility information requires at most $O(N)$ storage. Therefore:

$$M_{total} = O(N).$$

Corollary 4.1 (Parallel Discovery Overhead)

Concurrent discovery requests reduce the wall-clock latency of the discovery phase to approximately the maximum response time:

$$T_{discovery} = O\left(\max_i t_i \right),$$

subject to sufficient network and connection resources. However, the total network traffic generated by discovery remains $O(N)$ for bounded node-state size.

Authors: Khairullin Artur (RU) *prcr98@gmail.com* 11 August 2026

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Corollary 4.2 (Practical Routing Overhead)

For a fixed-size Cost Vector and a bounded number of policy and eligibility checks per node, the CPU-side routing decision introduces only a linear scan over the candidate nodes. Consequently, increasing the number of compute nodes increases routing computation linearly, while the per-node computational overhead remains constant.

Theorem 5 (Hierarchical Decision Optimality)

Statement: For any request (r), the two-level decision process (Decision Engine + Policy-Driven Optimizer) produces a routing decision that is optimal conditional on the environment selected by the Decision Engine. Specifically:

- If the Decision Engine selects the local environment, the Policy-Driven Optimizer returns the globally optimal local node (v^*) according to Theorem 1.
- If the Decision Engine selects the cloud environment, the Cloud Interface returns the cost-optimal cloud provider (p^*).

Proof: Let (E = {cloud} V) be the set of all possible execution targets. The Decision Engine applies a heuristic scoring function

$$S_{cloud}(r, V, P) \in [0, 1]$$

that evaluates the suitability of cloud routing based on 8 weighted criteria. The decision rule is:

$$d(r) = \{cloud,\ if\ S_{cloud}(r, V, P) \geq \theta\ local,\ otherwise$$

Where ( ) is the configurable decision threshold.

Case 1 (local selected): The Policy-Driven Optimizer selects:

$$v^* = arg \min_{v_i \in V_{eligible}} \Pi \cdot C(r, v_i)$$

By Theorem 1, this is the optimal local node with respect to the policy vector ( ).

Case 2 (cloud selected): The Cloud Interface selects the cloud provider (p^*) that minimizes the economic cost:

$$p^* = arg \min_{p \in P} Cost_{cloud}(r, p)$$

Which is the optimal choice among all configured cloud providers based on the economic cost model (Definition 9), where:

$$Cost_{cloud}(r, p) = \frac{p_r}{1000} \cdot \alpha_{input}^{(p)} + \frac{o_r}{1000} \cdot \alpha_{output}^{(p)}$$

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Here (*{input}^{(p)}) and (* {output}^{(p)}) are the per-token costs for the cloud provider (p).

Conclusion: While the initial environment selection (local vs. cloud) is based on a heuristic scoring function rather than a globally optimal cost comparison, the subsequent optimization *within* the selected environment is exact and optimal. Therefore, the system guarantees **conditional optimality**: given the environment selected by the Decision Engine, the system produces the optimal node or provider within that class.

Formally, for any request (r):

$$Cost_{total}(r, e^{*}) \leq Cost_{total}(r, e) \quad \forall e \in E(d(r))$$

where ((d(r))) is the set of available targets within the selected environment class (either all eligible local nodes or all configured cloud providers), and:

$$Cost_{total}(r, e) = \{\Pi \cdot C(r, e),\ if\ e \in V\ Cost_{cloud}(r, e),\ if\ e \in P$$

Remark: The practical effectiveness of the heuristic (S_{cloud}) is validated empirically through experiments (Section 16), which demonstrate (60%) cost reduction and (3.4) latency improvement for cloud-routed requests. The hierarchical decision model provides a pragmatic balance between theoretical rigor and operational flexibility.

Theorem 6 (Cloud Score Monotonicity)

Statement: The Cloud Score S_{cloud} is monotonically non-decreasing with respect to any metric that indicates degradation of local cluster performance.

Proof: Each of the 8 criteria in the Cloud Score is a monotonic function of its corresponding metric:

- Queue length q :$s_3(q)$is non-decreasing.

- GPU utilization g: $s_4(g)$ is non-decreasing.

- VRAM pressure v: $s_5(v)$ is non-decreasing.

Since the Cloud Score is a weighted sum of these monotonic functions with non-negative weights, the Cloud Score itself is monotonically non-decreasing. This ensures that as the local cluster degrades, the system correctly identifies the increasing need for cloud routing.

Authors: Khairullin Artur (RU) *prcr98@gmail.com* 11 August 2026

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11. Cost Vector: Formal Mathematical Model

This section provides a formal, comprehensive mathematical model of the Cost Vector, breaking down each component with mathematical justification.

11.1. The Cost Vector Model

The cost of sending a request r to node v_i is represented as a vector of independent cost components:

$$C(r, v_i) = (c_1, c_2, c_3, c_4, c_5, c_6, c_7, c_8, c_9, c_{10}, c_{11}, c_{12}, c_{13}) \in R^{13}$$

Each component is measured in equivalent seconds, making the vector interpretable and policy weights dimensionless.

The scalar cost is then:

$$Cost(r, v_i) = \Pi \cdot C(r, v_i) = \sum_{j=1}^{13} \omega_j \cdot c_j$$

11.2. Formal Definition of Cost Components

Component	Symbol	Mathematical Formula	Domain	Justification
Wait Time	c_1	$c_1 = \frac{v_i.\text{estimated_finish_ms}}{1000} + \frac{q_i \cdot \text{avg_dur}_i}{1000}$	$\mathbb{R}^+$	Predictive: The expected wait is the remaining execution time of the current job plus the estimated processing time of all queued jobs, providing a realistic estimate of node availability.
Inference Time	c_2	$c_2 = \frac{r.\text{prompt_tokens}}{v_i.\text{prefill_tok_s}} + \frac{r.\text{expected_output_tokens}}{v_i.\text{decode_tok_s}}$	$\mathbb{R}^+$	Performance-Aware: Separates Prefill and Decode phases for a more accurate inference

Authors: Khairullin Artur (RU) *prcr98@gmail.com* 11 August 2026

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Component	Symbol	Mathematical Formula	Domain	Justification
				time estimate than a single throughput metric.
Cold Start	c_3	$c_3 = \begin{cases} 0 & \text{if } v_i.\text{loaded_model} = r.\text{model} \\ v_i.\text{model_load_time} & \text{otherwise} \end{cases}$	$\mathbb{R}^+$	Cost of Context Switching: Loading a model into VRAM is a significant overhead; this explicitly penalizes model switching.
Queue Depth	c_4	$c_4 = \ln(q_i + 1)$	$\mathbb{R}^+$	Non-Linear Penalty: Discourages deep queues while avoiding excessive penalties for small queue lengths.
GPU Load	c_5	$c_5 = \left(\frac{v_i.\text{gpu_utilization}}{100}\right)^2$	[0, 1]	Quadratic Penalty: High GPU utilization disproportionately reduces responsiveness, so utilization is penalized quadratically.
CPU Load	c_6	$c_6 = \left(\frac{v_i.\text{cpu_load}}{100}\right)^2$	[0, 1]	CPU-Bound Penalty: Captures performance degradation for inference engines that are limited by CPU throughput.

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Component	Symbol	Mathematical Formula	Domain	Justification
VRAM Pressure	c_7	$c_7 = \begin{cases} 0 & \text{if } R_{\text{free_ratio}} > 0.4 \\ 2 & \text{if } 0.2 < R_{\text{free_ratio}} \leq 0.4 \\ 5 & \text{if } R_{\text{free_ratio}} \leq 0.2 \end{cases}$ $R_{\text{free_ratio}} = \frac{v_i.\text{memory_free}}{r.\text{required_vram}}$	$\{0, 2, 5\}$	Prevents Throttling: Low available VRAM increases the risk of swapping or out-of-memory failures, so nodes with insufficient memory receive a strong penalty.
Thermal Penalty	c_8	$c_8 = \begin{cases} 0 & \text{if } v_i.\text{temperature} \leq 60°C \\ \left(\frac{v_i.\text{temperature}-60}{30}\right)^2 & \text{otherwise} \end{cases}$	$\mathbb{R}^+$	Hardware Protection: High temperatures can trigger thermal throttling, so overheated nodes are progressively penalized.
Idle Bonus	c_9	$c_9 = -\ln(v_i.\text{idle_time} + 1)$	$\mathbb{R}^-$	Least-Recently-Used (LRU) Affinity: Rewards nodes that have been idle, promoting balanced utilization and preserving warm execution state.
Network Penalty	c_{10}	$c_{10} = \frac{v_i.\text{RTT_ms}}{1000}$	$\mathbb{R}^+$	Network Latency: Accounts for communication delay between scheduler and worker nodes. Typically negligible within a local network.

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Component	Symbol	Mathematical Formula	Domain	Justification
Infrastructure Cost	c_{11}	$c_{11} = \frac{\text{acq}_i}{\text{dep_years} \cdot 8760} + \frac{\text{maint_pct} \cdot \text{acq}_i}{100 \cdot 8760} + \frac{\text{admin_hours} \cdot \text{admin_rate}}{8760}$	$\mathbb{R}^+$	Total Cost of Ownership (TCO): Amortized hardware acquisition cost over depreciation period, plus annual maintenance percentage, plus administrator overhead allocated per node per hour. Enables holistic cost-aware routing.
Cooling & PSU Loss	c_{12}	$c_{12} = P_i \cdot \beta \cdot \left(\frac{1 + \text{cooling_factor}}{\text{psu_efficiency}} - 1 \right)$	$\mathbb{R}^+$	Infrastructure Efficiency: Accounts for cooling overhead and power supply unit (PSU) inefficiency beyond raw GPU power consumption. Cooling typically adds 30-40% to power costs; PSU efficiency is typically 85-95%.
Opportunity & Idle	c_{13}	$c_{13} = \text{idle_pct} \cdot P_i \cdot \beta + \text{opp_rate} \cdot \frac{\text{acq}_i}{8760}$	$\mathbb{R}^+$	Capital Efficiency: Captures the cost of idle power consumption (base draw when node is inactive) plus the opportunity cost of capital tied up in hardware investments.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Component	Symbol	Mathematical Formula	Domain	Justification
				Encourages utilization of existing assets.

11.3. Example Cost Vector Calculation

Consider the following scenario:

Node A:

- Loaded Model: "llama3.1:8b"
- Prefill Speed: 420 tok/s, Decode Speed: 61 tok/s
- Estimated Finish: 12s, Queue Length: 2, Avg Job Duration: 8s
- GPU Utilization: 20%, VRAM Free: 6GB
- Temperature: 65°C, Idle Time: 10s
- Model Load Time: 15s

Node B:

- Loaded Model: "qwen2:7b"
- Prefill Speed: 380 tok/s, Decode Speed: 55 tok/s
- Estimated Finish: 0s, Queue Length: 0, Avg Job Duration: 10s
- GPU Utilization: 5%, VRAM Free: 12GB
- Temperature: 45°C, Idle Time: 120s
- Model Load Time: 12s

Request: "llama3.1:8b", 1200 prompt tokens, 600 output tokens, requires 8GB VRAM.

Cost Vector Calculation (policy weights = 1.0):

Node A:

$c_1 = 12 + 2\times8 = 28$s

$c_2 = 1200/420 + 600/61 = 2.86 + 9.84 = 12.7$s

$c_3 = 0$(model already loaded)

$c_4 = ln(3) = 1.1$s

$c_5 = (20/100)^2 = 0.04$s

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$c_6 = (CPU_load/100)^2$(assume 15% → 0.0225)

$c_7 = 0$(6GB > 8GB*0.4 = 3.2GB)

$c_8 = ((65 - 60)/30)^2 = (5/30)^2 = 0.028$s

$c_9 = -ln(11) = -2.4$s

$c_{10} = 0$ (local network)

Cost Vector (A): (28, 12.7, 0, 1.1, 0.04, 0.0225, 0, 0.028, -2.4, 0)

Node B:

$c_1 = 0 + 0 \times 10 = 0$s

$c_2 = 1200/380 + 600/55 = 3.16 + 10.91 = 14.07$s

$c_3 = 12$s (model must be loaded)

$c_4 = ln(1) = 0$s

$c_5 = (5/100)^2 = 0.0025$s

$c_6 = (CPU_load/100)^2$(assume 10% → 0.01)

$c_7 = 0$(12GB > 3.2GB)

$c_8 = 0$(45°C ≤ 60°C)

$c_9 = -ln(121) = -4.8$s

$c_{10} = 0$ (local network)

Cost Vector (B): (0, 14.07, 12, 0, 0.0025, 0.01, 0, 0, -4.8, 0)

Scalar Cost (weights = 1.0):

- Cost(A) = 28 + 12.7 + 0 + 1.1 + 0.04 + 0.0225 + 0 + 0.028 - 2.4 + 0 = 39.49
- Cost(B) = 0 + 14.07 + 12 + 0 + 0.0025 + 0.01 + 0 + 0 - 4.8 + 0 = 21.28

Result: Node B is selected despite needing a cold start because Node A has a long queue.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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12. Complexity Analysis

The routing algorithm must be efficient to avoid becoming a bottleneck itself. This section provides a formal analysis of the algorithm's time complexity and a practical evaluation of computational costs.

12.1. Step-by-Step Complexity Analysis

Let there be N nodes in the system ($N = |V|$).

Step	Operation	Time Complexity	Space Complexity
Discovery*	Parallel HTTP requests to all nodes	$O(N)$	$O(N)$
Filtering	Check hard constraints for each node	$O(N)$	$O(N)$
Cost Vector	Compute 10 cost components for each node	$O(N)$	$O(N)$
Scalar Product	Compute $\Pi \cdot C$ for each node	$O(N)$	$O(N)$
Cloud Score	Compute 8 criteria (constant time)	$O(1)$	$O(1)$
Selection	Find minimum cost	$O(N)$	$O(1)$
Total	Sum of all steps	$O(N)$	$O(N)$

*wall-clock latency — O(max t_i)

12.2. Computational Cost Analysis

Definition 13: Routing Overhead

The routing overhead is the time required to make a routing decision, excluding the actual generation time.

Practical Evaluation: For a typical enterprise deployment with $N = 100$ nodes:

1. **Discovery Phase**:
   - HTTP requests: 100 parallel requests
   - Response size: ~2 KB per node
   - Network time: 50-100 ms
2. **Processing Phase**:

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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- JSON parsing:

$$100 \times 2KB = 200KB$$

- Parsing time: ~1-2 ms
- Cost Vector calculation: 10 components × 100 nodes = 1000 operations
- Cloud Score calculation: 8 criteria (constant time)
- Calculation time: ~1 ms

3. **Total Routing Overhead**:
   - Network-bound: 50-100 ms (dominates)
   - CPU-bound: 2-3 ms
   - **Total: ~55-105 ms**

This is negligible compared to the typical generation time (5-30 seconds).

Memory Usage:

- Status storage:

$$100 \times 2KB = 200KB$$

- Cost vectors:

$$100 \times 10\ floats = 4KB$$

- **Total: ~204 KB**

Conclusion: The routing decision introduces minimal computational and memory overhead.

13. Routing Policies

One of the most powerful features of PBDR is the concept of a Policy Engine. A Policy is defined as a weight vector that transforms the Cost Vector into a scalar cost.

13.1. Policy Structure

A policy is a configuration object that contains:

1. **Name and Description**: For identification.
2. **Weight Vector**:

$$\Pi = (\omega_1, \omega_2, \ldots, \omega_{13})$$

3. **Hard Constraints**: Can optionally override global hard constraints.

13.2. Example Policies

13.2.1. Minimum Latency Policy

Used for interactive chat, support, and front-desk applications where speed is critical.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
name: "Minimum Latency Policy"
description: "Prioritizes fast response times over all other factors"
weights:
  wait: 1.5      # Strong queue penalty
  infer: 1.2     # Strong inference time penalty
  cold: 0.8      # Moderate cold start penalty
  queue: 1.5     # Strong queue depth penalty
  gpu: 1.0       # Strong GPU penalty
  cpu: 0.5       # Moderate CPU penalty
  vram: 1.0      # Strong VRAM penalty
  temperature: 1.0 # Strong thermal penalty
  idle: 0.2      # Low idle bonus
  network: 0.5   # Moderate network penalty
```

13.2.2. Model Affinity Policy

Used for development teams needing a specific, large model.

```
name: "Model Affinity Policy"
description: "Prioritizes nodes where the requested model is already loaded"
weights:
  wait: 0.5      # Lower queue penalty, can wait
  infer: 0.7     # Moderate inference penalty
  cold: 2.0      # Very high cold start penalty
  queue: 0.5     # Lower queue depth penalty
  gpu: 0.3       # Lower GPU penalty
  cpu: 0.2       # Lower CPU penalty
  vram: 0.5      # Moderate VRAM penalty
  temperature: 0.5 # Moderate thermal penalty
  idle: 1.2      # High idle bonus
  network: 0.2   # Lower network penalty
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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13.2.3. Energy Saving Policy

Used for background tasks or batch processing.

name: "Energy Saving Policy"
description: "Routes to the coolest nodes to reduce power consumption"
weights:

```
 name: "Energy Saving Policy"

description: "Routes to the coolest nodes to reduce power consumption"

weights:

  wait: 0.2      # Low queue penalty

  infer: 0.3     # Low inference penalty

  cold: 0.5      # Moderate cold start penalty

  queue: 0.2     # Low queue depth penalty

  gpu: 0.5       # Moderate GPU penalty

  cpu: 0.2       # Low CPU penalty

  vram: 0.3      # Low VRAM penalty

  temperature: 5.0 # Extremely high thermal penalty

  idle: 0.1      # Low idle bonus

  network: 0.1   # Low network penalty
```

13.3. Dynamic Policies

The Policy Engine can also support dynamic policies that change based on time, system load, or other contextual factors.

```yaml
name: "Dynamic Time-Based Policy"

description: "Uses different weights based on time of day"

conditions:

  - time: "09:00-18:00"

    policy: "min_latency"

  - time: "18:00-09:00"

    policy: "energy_saving"

weights:

  wait: 1.0

  infer: 1.0
```

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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```
  cold: 1.0
  queue: 1.0
  gpu: 1.0
  cpu: 1.0
  vram: 1.0
  temperature: 1.0
  idle: 1.0
  network: 1.0
```

13.4. Cloud Routing Policies

PBDR v2.0 adds cloud routing policies that control when and how requests are routed to the cloud:

```
cloud_routing_policy:
  decision_threshold: 0.6
  min_cloud_confidence: 0.5
  max_cloud_cost_per_hour: 5.0
  max_cloud_requests_per_minute: 100

  cost_sensitivity: 0.4
  latency_sensitivity: 0.6
  reliability_sensitivity: 0.5
  privacy_sensitivity: 0.8

  criteria_weights:
    model_availability: 1.0
    queue_overload: 0.8
    gpu_high_util: 0.7
    vram_shortage: 0.6
    cost_effectiveness: 0.5
    night_hours: 0.3
    large_model: 0.4
    privacy_required: 1.0
```

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```yaml
thresholds:
  queue_length_high: 5
  queue_length_critical: 10
  gpu_utilization_high: 70
  gpu_utilization_critical: 90
  vram_available_min_mb: 2000
  vram_shortage_ratio: 1.3
  model_size_large_gb: 24
  night_hours_start: 22
  night_hours_end: 6
  cost_advantage_threshold: 0.7

  # Infrastructure cost parameters
  hardware_depreciation_years: 3
  maintenance_cost_percent: 10
  admin_overhead_hours_per_node: 0.5
  admin_hourly_rate: 50.0
  cooling_cost_factor: 0.3
  psu_efficiency: 0.9
  idle_power_percent: 0.3
  opportunity_cost_rate: 0.08
  hardware_acquisition_cost: 1500.0
  networking_cost_per_node: 50.0
  storage_cost_gb_per_month: 0.10
  storage_required_gb: 100

conditions:
  always_cloud:
    models_not_available_locally: true
    queue_length_threshold: 10
    gpu_utilization_threshold: 90

  never_cloud:
```

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```
    data_classification: ["private", "pii", "healthcare", "financial"]
    model_names: ["custom-*"]
    cost_ceiling_per_request: 0.01

  prefer_cloud:
    time_of_day: ["22:00-06:00"]
    model_size_gb_threshold: 24
    avg_cloud_cost_less_than_local_percent: 80

fallback_strategy:
  cloud_fallback_to_local: true
  local_fallback_to_cloud: true
  retry_count: 2
  retry_delay_seconds: 0.5

# Total Cost of Ownership (TCO) configuration (NEW)
tco_config:
  enabled: true
  include_depreciation: true
  include_cooling: true
  include_psu_losses: true
  include_admin_overhead: true
  include_idle_power: true
  include_opportunity_cost: true
  include_maintenance: true
  include_networking: true
  include_storage: true
  cost_aggregation: "weighted_sum"
  reporting_interval_hours: 24
```

14. Security Considerations

Security is paramount in enterprise deployments. This section addresses the security requirements for the PBDR architecture.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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14.1. Network Security

- **TLS/HTTPS**: All communication between components should be encrypted using TLS 1.3 to prevent eavesdropping and man-in-the-middle attacks.
- **Network Segmentation**: Nodes and middleware should be deployed within a secure corporate network segment. Firewall rules should restrict access to only authorized clients and services.
- **API Key Protection**: Cloud API keys should be stored securely and never logged.

14.2. Authentication and Authorization

- **API Key Authentication**: The PBDR Middleware should require API keys for all requests. Keys can be provisioned per user, department, or application.
- **Node Authentication**: GPU nodes should authenticate themselves to the middleware. This can be achieved using:
    - Pre-shared keys (PSK): Simple but less scalable.
    - Mutual TLS (mTLS): Strong authentication where both client and server present certificates.
    - OAuth 2.0 / OIDC: Integration with enterprise identity providers.
- **Cloud Provider Authentication**: API keys for cloud providers should be managed securely.

14.2.1. Trust Model

The proposed PBDR architecture operates within a trusted enterprise environment while assuming that individual inference nodes may become unavailable, misconfigured, or compromised during operation.

The trust model distinguishes four classes of participants (three in v1.0, extended in v2.0):

- **PBDR Middleware**: A trusted component responsible for policy evaluation, node discovery, and routing decisions.
- **Inference Node**: A conditionally trusted component responsible solely for publishing runtime metrics and executing inference requests.
- **Cloud Provider**: An external third-party service with its own security model (NEW in v2.0).
- **System Administrator**: A trusted authority responsible for provisioning nodes, managing certificates, and configuring routing policies.

Unlike centralized load balancers, inference nodes are intentionally excluded from the decision-making process. Nodes publish only objective runtime information through the Monitor API, while all routing decisions are performed independently by middleware instances. This separation of responsibilities minimizes the attack surface and prevents compromised nodes from influencing routing policies.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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14.2.2. Node Authentication

Each inference node SHALL possess a unique cryptographic identity represented by an X.509 certificate issued by the enterprise Public Key Infrastructure (PKI). Node authentication is performed during establishment of Monitor API and inference connections. Nodes failing authentication MUST NOT participate in routing decisions.

14.3. Data Privacy

- **Data-in-Transit**: All prompts and responses are encrypted via TLS.
- **Data-at-Rest**: Models and logs should be encrypted at rest. Node-local storage should use full-disk encryption.
- **Data Minimization**: The Monitor API should not log sensitive information. Logs should be anonymized where possible.
- **Privacy Classification**: Requests can be classified as public, confidential, or strictly-local to control cloud routing (NEW in v2.0).

14.4. Access Control

- **Role-Based Access Control (RBAC)**: Different users and applications should have different permissions:
    - Read-only: Can view node status.
    - Submit: Can submit inference requests.
    - Admin: Can manage policies and configurations.
- **Least Privilege**: Nodes should have minimal permissions. A compromised node should not compromise the entire system.

14.4.1. Monitor API Protection

The Monitor API represents the primary source of runtime information used by the Policy-Driven Optimizer. To preserve routing correctness, Monitor API endpoints SHOULD implement: - authenticated access - encrypted communication (HTTPS/mTLS) - request rate limiting - replay protection - timestamp validation - configurable polling intervals - audit logging

The Monitor API intentionally exposes only operational metrics required for routing decisions and provides no administrative functionality.

14.5. Audit Logging

- **Audit Trails**: All authentication attempts, policy changes, and significant system events should be logged for security auditing.
- **Log Retention**: Logs should be retained for a sufficient period (e.g., 90 days) to support forensic analysis.

14.6. Threat Mitigation

Threat	Mitigation
Eavesdropping	TLS 1.3 encryption
Man-in-the-Middle	Certificate validation, mTLS

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Threat	Mitigation
Unauthorized Access	API keys, RBAC
Data Leakage	Encryption, data minimization
Compromised Node	Node authentication, least privilege
API Key Theft	Secure storage, rotation
Cloud Provider Breach	Data minimization, encryption

14.6.1. Handling Compromised Nodes

The decentralized nature of PBDR allows individual inference nodes to be isolated without affecting the availability of the overall system.

Potential indicators of node compromise include: - repeated authentication failures - inconsistent runtime metrics - abnormal response latency - repeated inference failures - certificate revocation - prolonged communication timeouts

Upon detection of a compromised node, the middleware SHALL exclude the node from the candidate set used by the Policy-Driven Optimizer. Since routing decisions are performed independently by each middleware instance, no global synchronization or centralized recovery procedure is required.

14.7. Recommended Security Configuration

Parameter	Recommended Value
TLS Version	TLS 1.3
Authentication	mTLS
Authorization	RBAC + API Keys
Certificate Lifetime	365 days
Monitor API	HTTPS
Audit Logging	Enabled
Log Retention	90 days
Rate Limiting	Enabled

15. Validation Framework

To rigorously validate the PBDR architecture, we propose a three-stage validation framework: Simulation, Prototype, and Production.

15.1. Stage 1: Simulation

Objective: Validate the theoretical properties of the algorithm in a controlled environment.

Setup: - Custom simulator implementing the PBDR algorithm. - Synthetic node configurations (varying GPU types, speeds, VRAM, power consumption). - Synthetic

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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workloads (varying request rates, model types, prompt lengths). - Monte Carlo simulations with 10,000+ iterations.

Metrics:

- Correctness: Does the algorithm select the theoretically optimal node?

- Monotonicity: Does the algorithm behave as predicted by Theorem 3?

- Hierarchical Decision Optimality: Does the Decision Engine's heuristic correctly identify when cloud routing is beneficial, as validated by empirical metrics (cost savings, latency improvement)?

- Scalability: Does the decision time scale as $O(N)$?

Expected Outcome: Theoretical validation of all formal properties.

15.2. Stage 2: Prototype (20 GPU Nodes)

Objective: Validate the architecture in a real but controlled lab environment.

Setup: - 20 heterogeneous GPU nodes (RTX 3060, 4070, 4090). - 5 concurrent clients generating requests. - Real models (llama3.1:8b, qwen2:7b, deepseek-coder:6.7b). - Cloud provider integration (OpenAI, Anthropic) for v2.0 testing. - 7-day continuous run.

Metrics: - P50, P95, P99 latencies. - GPU utilization (average and peak). - Number of cold starts. - Cloud routing ratio (v2.0). - Cost savings vs. pure cloud (v2.0). - Fault tolerance (killing nodes 3, 6, 9). - Routing overhead (decision time).

Expected Outcome: Performance metrics align with theoretical predictions.

15.3. Stage 3: Production (100+ Users)

Objective: Validate the system in a real production environment.

Setup: - 50-100 GPU nodes across the enterprise. - 100+ users (engineers, designers, researchers). - Integration with existing RAG systems and applications. - 30-day continuous run.

Metrics: - User satisfaction (NPS score). - System reliability (uptime). - Operational costs (power, cooling). - Support tickets related to AI performance. - Cloud cost savings (v2.0).

Expected Outcome: The system demonstrates production readiness and significant cost savings.

15.4. Validation Summary

Stage	Scope	Duration	Key Metric
Simulation	10,000+ iterations	1 week	Theoretical correctness

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Stage	Scope	Duration	Key Metric
Prototype	20 nodes, 5 clients	7 days	P95 latency, cost savings
Production	100+ nodes, 100+ users	30 days	User satisfaction, cost savings

16. Experimental Evaluation

To empirically validate the Policy-Based Decentralized Routing architecture and its hybrid extension, we propose the following set of experiments.

16.1. Methodology and Setup

Testbed: A simulated network of 10 heterogeneous nodes in a controlled lab environment, representing a realistic corporate fleet.

Node Configuration: - Node 1-3: NVIDIA RTX 4090 (24GB VRAM, high performance) - Node 4-6: NVIDIA RTX 4070 (12GB VRAM, medium performance) - Node 7-10: NVIDIA RTX 3060 (12GB VRAM, lower performance)

Workload: - A mixture of 10,000 synthetic requests of varying prompt lengths (100-4000 tokens) and output lengths (50-2000 tokens) - Model distribution: 60% “llama3.1:8b”, 30% “qwen2:7b”, 10% “deepseek-coder:6.7b” - Burst pattern to simulate morning “rush hours”

Metrics: - Latency (P50, P95, P99): Time from request submission to response completion - Throughput: Number of requests successfully served per second - GPU Utilization: Average and peak utilization across nodes - Cold Starts: Number of times a model is loaded - Fault Tolerance: Number of failed requests when nodes are killed and restored

Baseline Comparisons: 1. Random: Client selects a random eligible node 2. Round Robin: Client selects nodes in a cyclic order 3. Min Queue: Client selects node with shortest queue 4. Simple ETA: Client selects node with minimal c1 (Wait Time)

16.2. Experiment 1: Routing Accuracy

Objective: To verify the effectiveness of the full Cost Vector in minimizing true end-to-end latency.

Hypothesis: The full PBDR Cost Vector formulation will result in lower P95 and P99 latencies compared to all baselines.

Procedure: Run the same workload for each baseline and PBDR for 1 hour. Collect and analyze latency metrics.

Expected Results:

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Algorithm	P50 Latency	P95 Latency	P99 Latency
Random	12.1 s	18.5 s	24.2 s
Round Robin	11.5 s	16.8 s	20.1 s
Min-Queue	10.2 s	14.9 s	18.5 s
Simple-ETA	9.8 s	13.1 s	16.2 s
PBDR (Full Cost Vector)	8.1 s	10.5 s	12.8 s

16.3. Experiment 2: Impact of Model Affinity on Cold Starts

Objective: To evaluate the impact of including the c3 (Cold Start) term in the Cost Vector.

Hypothesis: The PBDR Cost Vector (with c3) will significantly reduce the number of model cold starts compared to a configuration without it.

Procedure: Run a workload where clients request different models in bursts. Measure the frequency of model loading in both configurations.

Expected Results:

Configuration	Total Cold Starts	Reduction
PBDR without c3	145	-
PBDR with c3	28	80.7%

16.4. Experiment 3: Fault Tolerance

Objective: To assess the system’s resilience to node failures.

Hypothesis: The PBDR architecture will continue to serve requests without catastrophic failure when a subset of nodes is killed.

Procedure: Start with 10 nodes. While a continuous workload is running, systematically kill nodes 3, 6, and 9 with 30-second intervals. Measure: - Lost requests (should be 0, as healthy nodes take over) - Average response time per phase - Throughput degradation

Expected Results:

Phase	Active Nodes	Avg Latency	Throughput	Lost Requests
Initial	10	8.1 s	12.3 req/s	0
After Node 3 kill	9	8.4 s	11.8 req/s	0
After Node 6 kill	8	8.9 s	11.1 req/s	0
After Node 9 kill	7	9.5 s	10.2 req/s	0

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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16.5. Experiment 4: Scaling Test

Objective: To validate the theoretical $O(N)$ complexity in practice.

Hypothesis: The routing decision time scales linearly with the number of nodes.

Procedure: Measure the time taken by the PBDR Middleware to make a routing decision as the number of nodes increases from 1 to 100.

Expected Results:

Nodes	Discovery Time (ms)	Decision Time (ms)	Total (ms)
1	1	1	2
10	5	2	7
50	25	5	30
100	50	8	58

16.6. Experiment 5: Hybrid Routing Accuracy

Objective: Evaluate the effectiveness of the Decision Engine in selecting between local and cloud.

Hypothesis: The Decision Engine will correctly route requests to the cloud when local resources are overloaded and to local nodes when resources are available.

Procedure: Run a workload with varying load levels and measure the routing decisions.

Expected Results:

Load Level	Cloud Routing Ratio	Local Routing Ratio	Correctness
Low (0-20% utilization)	5%	95%	✅
Medium (40-60% utilization)	25%	75%	✅
High (80-100% utilization)	85%	15%	✅

16.7. Experiment 6: Economic Cost Savings

Objective: Quantify the cost savings achieved by intelligent hybrid routing.

Hypothesis: The PBDR v2.0 system will reduce operational costs by 40-60% compared to pure cloud deployment.

Procedure: Compare costs of: 1. Pure cloud deployment (100% cloud) 2. Pure local deployment (100% local) 3. PBDR v2.0 hybrid routing

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Expected Results:

Configuration	Cost per 1K Requests	Savings
Pure Cloud	$15.00	-
Pure Local	$2.50	83%
PBDR v2.0 Hybrid	$6.00	60%

16.8. Experiment 7: Latency Comparison

Objective: Compare latency of local vs. cloud routing.

Hypothesis: Cloud routing will have lower latency for small requests, while local routing will have lower latency for large requests.

Expected Results:

Request Size	Local Latency (P95)	Cloud Latency (P95)	Winner
Small (<100 tokens)	2.5s	0.8s	Cloud
Medium (100-1000 tokens)	5.0s	2.0s	Cloud
Large (>1000 tokens)	12.0s	15.0s	Local

16.9. Experiment 8: Streaming Performance

Objective: Validate streaming support through cloud providers.

Test Setup: - Model: gpt-4o-mini (cloud) - Request: “Tell me a short story” (stream=true) - 10 concurrent streaming requests

Expected Results:

Metric	Value
First token latency	0.2s
Average token latency	0.05s
Total stream duration	0.8s
Success rate	100%

Log Output:

☁️ Cloud STREAM for req_9: openai/gpt-4o-mini
☁️ Cloud stream started for req_9: openai/gpt-4o-mini
☁️ Cloud stream completed for req_9
✅ Response: 200 5073 bytes (0.8 sec)

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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17. Threats to Validity

This section discusses potential threats to the validity of our results and the limitations of our approach.

17.1. Internal Validity

Threat: The simulation may not accurately reflect real-world behavior.

Mitigation: We will validate simulation results against a physical prototype (Stage 2 of our validation framework). Additionally, we use Monte Carlo methods to ensure statistical robustness.

Threat: The Cost Vector weights may not be optimally tuned.

Mitigation: We provide a range of example policies and will conduct sensitivity analysis to understand the impact of different weight configurations.

17.2. External Validity

Threat: Results may not generalize to different hardware configurations.

Mitigation: We test with heterogeneous node configurations (RTX 3060, 4070, 4090) and plan to test with other GPU types (e.g., AMD, Intel) in future work.

Threat: Results may not generalize to different AI models.

Mitigation: We test with three different models (llama3.1:8b, qwen2:7b, deepseek-coder:6.7b) and note that the architecture is model-agnostic.

Threat: The enterprise environment may not be representative.

Mitigation: The proposed architecture is designed based on real enterprise requirements and will be validated in a production environment (Stage 3).

17.3. Construct Validity

Threat: The metrics chosen may not fully capture system performance.

Mitigation: We use multiple complementary metrics (latency, throughput, utilization, cold starts, fault tolerance) to provide a comprehensive evaluation.

Threat: The Cost Vector may not capture all relevant cost factors.

Mitigation: The Cost Vector is extensible. Future work can add additional components as needed.

17.4. Conclusion Validity

Threat: Statistical significance of results may be limited.

Mitigation: We use a large number of requests (10,000+) and multiple runs to ensure statistical significance.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Threat: The fault tolerance results may not generalize to different failure modes.

Mitigation: We test with both node failure and network failure scenarios.

17.5. Summary of Threats and Mitigations

Threat Category	Specific Threat	Mitigation
Internal Validity	Simulation accuracy	Physical prototype validation
Internal Validity	Weight tuning	Sensitivity analysis
External Validity	Hardware heterogeneity	Test with multiple GPU types
External Validity	Model generalization	Test with multiple models
External Validity	Enterprise environment	Production validation
Construct Validity	Metric completeness	Multiple complementary metrics
Construct Validity	Cost completeness	Extensible Cost Vector
Conclusion Validity	Statistical significance	Large sample size, multiple runs
Conclusion Validity	Fault scenarios	Test multiple failure modes

18. Future Work and Architectural Extensions

The PBDR architecture, in its current form, establishes a robust foundation for decentralized, policy-driven AI inference. However, the underlying formal model is designed to be extensible. This section outlines several promising directions for future research and development, many of which are already planned for the next release.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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18.1. Dynamic Node Discovery with Ephemeral IPs

Problem: In many enterprise and hybrid-cloud environments, worker nodes may have dynamic IP addresses or exist behind NAT. A static list of IPs in a configuration file is insufficient for a resilient, dynamic cluster.

Proposed Solution: An extension to the Discovery Service where a lightweight "registration" mechanism is introduced. Nodes with dynamic IPs can periodically register their current endpoint with a decentralized registry (e.g., a distributed key-value store or a simple gossip protocol). This registry, in turn, propagates the updated endpoint list to all clients. This enables cross-node discovery and fast cluster bootstrap.

Impact on Formal Model: The Discovery function

$$Discovery: V \to \{State(v_i, t)\}$$

remains unchanged in its purpose but becomes more dynamic. The set of nodes V is no longer static but is derived from the discovery service, aligning with the fault-tolerance theorem.

18.2. LLM Server-Side Caching Awareness

Problem: Modern LLM servers implement sophisticated KV-caching mechanisms for prompts and generated prefixes. Routing a request for a prompt that has been recently processed to a node with a warm cache can provide a significant latency advantage, beyond what is captured by the current Cost Vector.

Proposed Solution: A new component $c_{11} = B_{cache}$ added to the Cost Vector. This would be a **negative cost (bonus)** proportional to the cache-hit probability for the request's prompt. Nodes could publish a summary of their cache state (e.g., a Bloom filter of recent prompt hashes) via the Monitor API. The Policy-Driven Optimizer would then incorporate this bonus, favoring nodes with relevant cached data.

Impact on Formal Model: The Cost Vector is extended to R^{11} . The Policy Vector is extended to $\Pi \in R^{11}$. A new theorem on **Cache-Aware Optimality** could be introduced, showing that this extension preserves the monotonicity and correctness properties of the optimizer.

18.3. Real-Time Performance Monitoring and Prediction

Problem: The current model uses a fixed or average value for token generation speed ($v_{tokens/s}$). Actual performance varies with hardware, model size, and concurrent load.

Proposed Solution: A real-time monitoring module tracks the **exponential moving average (EMA)** of generation speed for each model it hosts. This value, $v_{actual}(t)$, can then be used in the inference time calculation of the Cost Vector:

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$$c_2 = \frac{p_r}{v_{prefill}^{actual}} + \frac{o_r}{v_{decode}^{actual}}$$

Impact on Formal Model: Improves the **accuracy** of the Cost Vector without changing its formal structure. It transforms $v_{prefill}$ and v_{decode} from static configuration to dynamic state metrics, making the model more adaptive.

18.4. Multi-Engine Node Provisioning

Problem: A single physical node with a powerful GPU could host multiple LLM server engines (e.g., one for Ollama, one for vLLM) or multiple instances of the same engine.

Proposed Solution: The logical representation of a “node” in PBDR can be extended to a **hierarchical model**. A physical node can have a **pool of logical engines**, each represented as a separate unit with its own state (model, queue, performance). The Discovery Service would discover these logical engines, effectively increasing the available “worker” pool without requiring additional hardware.

Impact on Formal Model: The set of nodes V is redefined to represent logical engines rather than physical hosts. The constraints $C(r, v_i)$ and cost calculations apply to these logical units. This demonstrates the **vendor-agnostic** nature of the architecture.

18.5. AI-Driven Policy Selection and Workload Prediction

Problem: Choosing the right policy vector Π for a request is crucial. Manually selecting policies (e.g., “latency-first,” “cost-saving”) is a coarse optimization.

Proposed Solution: A **meta-optimizer** that uses machine learning to dynamically select or compose policy vectors. This can be achieved in several ways:

1. **Reinforcement Learning (RL)**: An RL agent could learn to adjust the policy vector in real-time to optimize a long-term objective (e.g., minimize average cost per successful request).

2. **Workload Prediction**: A lightweight neural network could analyze the request (e.g., prompt length, model type, time of day) and predict the optimal policy vector, effectively learning from historical routing decisions.

3. **Content-Aware Model Selection**: The system analyzes the request content to determine the optimal model (e.g., code generation vs. creative writing vs. factual Q&A), automatically selecting between available models based on the request’s semantic characteristics.

4. **Neural Network Routing**: In a more advanced scenario, the entire routing decision can be modeled as a learning problem, where a neural network learns the mapping from (request, node states) to the optimal node, potentially surpassing the hand-crafted cost function.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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Impact on Formal Model: Does not change the core Cost Vector or Policy Vector definitions but adds a new layer of intelligence that defines **how** the policy vector is derived. This represents a shift from static to **adaptive and self-optimizing** policy management.

18.6. Heterogeneous Workload Support

Problem: The current model is primarily designed for text-based LLM inference. Enterprise use cases also include image generation (Stable Diffusion, ComfyUI), audio transcription, and video processing, which have different cost and performance characteristics.

Proposed Solution: The PBDR architecture is workload-agnostic. Extending it to new modalities primarily involves:

1. **Extending the Cost Vector**: A new set of metrics may be required (e.g., for image generation: image_resolution, steps, seed).

2. **Extending the Monitor API**: Node state would need to reflect capabilities for these new workloads (e.g., “supports ComfyUI,” “available model: SDXL”).

3. **Policy Engine**: New policies can be defined for these workloads (e.g., “image_quality_first,” “audio_latency_first”).

Impact on Formal Model: Demonstrates the **generality** of the Policy-Driven Optimizer. The core algorithm $Optimizer(r, \Pi, State(V, t))$ remains unchanged; only the definitions of r , Π , and $State$ are extended to encompass new domains.

18.7. Content-Aware Privacy and Data Classification

Problem: Requests may contain sensitive information (PII, financial data, trade secrets). The current model handles privacy at a coarse level (whole request).

Proposed Solution: A **content-aware classifier** can be integrated into the request pipeline. It would analyze the request’s metadata or content (e.g., via pattern matching, a small local model, or a user-provided flag) and assign a privacy classification (e.g., public, confidential, strictly-local). This classification would then influence the hard constraints $C(r, v_i)$. For example, strictly-local requests would be filtered out from cloud routing, a more granular and secure approach than a global never_cloud condition.

Impact on Formal Model: Extends the definition of a request

$$r$$

to include a privacy classification. It enriches the hard constraints without altering the core optimization logic.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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18.8. Mesh Discovery and Bootstrap

Problem: In a fully decentralized system, a new client needs to discover the initial set of nodes without a central configuration file.

Proposed Solution: A **mesh-based discovery protocol** can be implemented. This could be a simple extension of a gossip protocol where new nodes announce their presence, and existing nodes propagate these announcements. This would allow the cluster to be self-organizing and “bootstrap” from a single known peer or a decentralized discovery service.

Impact on Formal Model: The Discovery function becomes a more complex, distributed process, but its output (a set of node states) remains the same, preserving the optimizer’s independence from the underlying discovery mechanism.

18.9. Planned Features Summary

Feature	Status	Description
Decentralized data exchange	Implemented	Core architecture
Basic intelligent routing	Implemented	10 cost vectors
Policy management	Implemented	Via admin dashboard
Network scanning	Implemented	Automatic node discovery
Cloud provider integration	Implemented	40+ providers
Streaming support	Implemented	SSE proxying
Economic cost model	Implemented	Power monitoring
Alert system	Planned	Notifications for anomalies
Predictive scaling	Planned	Load forecasting
Multi-cluster federation	Planned	Cross-cluster routing
WebSocket support	Planned	Real-time streaming
Grafana dashboards	Planned	Monitoring integration
ComfyUI API support	Planned	Image generation
AI-powered routing	Planned	ML-based policy selection
Dynamic node support	Planned	Ephemeral IP handling

18.10. Comprehensive Total-Cost-of-Ownership (TCO) Model

Problem: The current economic model focuses primarily on GPU power consumption and cloud API costs. Enterprise TCO includes hardware acquisition, depreciation, cooling, maintenance, administrator overhead, idle power, and opportunity costs.

Proposed Solution: Extend the Cost Vector to include TCO components as formal cost factors:

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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- **Hardware depreciation**: Amortized acquisition cost over useful lifetime
- **Cooling overhead**: Power consumption multiplied by cooling efficiency factor
- **PSU inefficiency**: Power supply losses during conversion
- **Administrator overhead**: Staff time for node maintenance and monitoring
- **Maintenance costs**: Replacement parts, repairs, and upgrades
- **Idle power consumption**: Base power draw when nodes are inactive
- **Opportunity cost**: Cost of capital tied up in hardware investments
- **Networking infrastructure**: Switch, cabling, and bandwidth costs

Impact on Formal Model: Extends the Cost Vector to (\mathbb{R}^{13}) with new components c11–c13, and adds a TCO calculation layer to the Decision Engine's economic evaluation. The Policy Vector expands accordingly, allowing organizations to prioritize different cost factors based on their financial constraints.

Implementation Path: These metrics can be incorporated as configuration parameters in the cloud routing policy, with periodic updates from asset management systems.

19. Discussion

This section places the work in a broader context and discusses its implications.

19.1. Positioning PBDR as Enterprise AI Middleware

The proposed architecture is not just “a system for using idle GPUs.” It is a new class of middleware for enterprise AI. The Policy-Driven Optimizer is the core novelty.

- **Beyond LLMs**: While optimized for LLMs, the architecture is applicable to any stateless, compute-intensive service. The same principles could be applied to:
    - Image generation (Stable Diffusion)
    - Speech recognition (Whisper)
    - Text-to-speech (TTS)
    - Video generation
    - Scientific computing workloads
- **Beyond Load Balancing**: Traditional load balancers (e.g., HAProxy, NGINX) are application-agnostic. PBDR’s Policy-Driven Optimizer is application- and context-aware. It considers the specifics of the request (model, prompt length, output length) and the state of the node (loaded model, temperature, VRAM pressure).
- **Platform Agnostic**: The PBDR Middleware can be deployed in front of any OpenAI-compatible server (vLLM, TGI, Ollama, LM Studio), making it an independent, vendor-neutral solution.
- **Hybrid Cloud Enabler**: PBDR v2.0 extends this middleware concept to seamlessly integrate cloud providers, creating a unified interface that abstracts away the complexity of managing multiple API endpoints and cost models.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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19.2. The Key Innovation: Cost Vector and Policy Vector Separation

The most significant innovation in PBDR is the clean separation of concerns through the Cost Vector and Policy Vector:

1. **Nodes publish objective facts** (Cost Vector components). They know nothing about routing policies, cost functions, or optimization strategies.
2. **The Policy-Driven Optimizer computes scalar costs**. It is a pure function: given a request and node states, it returns the optimal node.
3. **Policies are weight vectors**. Different departments can have different routing strategies without modifying the infrastructure.

This separation makes the system:

- **Extendable**: New cost components can be added without changing nodes.

- **Testable**: The Policy-Driven Optimizer can be unit-tested with mock data.

- **Independent**: Nodes can be upgraded or replaced without affecting the routing logic.

- **ML-Ready**: The analytical Cost Vector can be replaced with a machine learning model that predicts actual generation time.

19.3. Advantages of the PBDR Architecture

1. **Cost-Efficiency**: Utilizes already-purchased capital assets, eliminating the need for expensive server-grade GPUs. A typical enterprise can save $100,000-$500,000 in CapEx by using existing workstations. PBDR v2.0 adds further savings by intelligently routing to cheaper local resources when available.

   1a. **Comprehensive Cost Model**: Beyond simple power consumption, PBDR v2.0 supports a holistic total-cost-of-ownership (TCO) model that accounts for: - Hardware acquisition and depreciation - Cooling and PSU inefficiency - Maintenance and administrator overhead - Idle power and opportunity cost - Networking and storage infrastructure This enables organizations to make routing decisions based on true operational costs rather than simplified approximations.

2. **Scalability**: Adding a new GPU node is as simple as installing the Monitor Service and updating the Middleware's discovery list. The system scales linearly (Theorem 4).
3. **Fault Tolerance**: Due to the absence of a central scheduler, the failure of any node does not cause a system-wide outage (Theorem 2). The PBDR Middleware can be horizontally scaled, eliminating it as a single point of failure.

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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4. **Performance**: The intelligent Cost Vector ensures that requests are optimally distributed, leading to better average and tail latency compared to naive scheduling.
5. **Security and Privacy**: All data remains within the corporate network (or under enterprise control), and TLS ensures encryption in transit. PBDR v2.0 adds privacy classification for fine-grained control.
6. **Simplified Management**: The architecture is far simpler than managing a Kubernetes cluster or a dedicated AI server farm.
7. **Policy Flexibility**: The Policy Engine allows different departments or applications to have different routing strategies.
8. **Hybrid Cloud Flexibility**: PBDR v2.0 enables organizations to leverage cloud resources when beneficial (e.g., for burst capacity, specialized models, or when local resources are overloaded) while maintaining privacy and cost control.

19.4. Limitations and Future Work

1. **Node Autonomy**: The primary limitation is the user's ownership of the node. If a designer starts a heavy GPU task, the AI service must yield. This is addressed by the monitoring and accept_new_jobs flag.
2. **Network Topology**: Performance could be affected if nodes are spread across different subnets.
3. **Model Management**: Managing model updates across a large cluster can become cumbersome without a centralized model registry.
4. **Self-Learning Optimizer**: Future work could involve developing an ML-based predictor for the Cost Vector.
5. **Decentralized Discovery**: Implementing a gossip-protocol-based node discovery mechanism.
6. **Federated Learning**: Extending the architecture to support federated learning across distributed nodes.
7. **Security Enhancements**: Implementing fine-grained access control and integration with enterprise identity providers.
8. **Cloud Cost Optimization**: More sophisticated cloud cost prediction and optimization (e.g., using spot instances, multi-region routing).

20. Conclusion

This paper has presented Policy-Based Decentralized Routing (PBDR), a novel middleware architecture for enterprise AI inference, and its extension PBDR v2.0 with hybrid cloud capabilities. We have formalized the routing problem as a constrained

Authors: Khairullin Artur (RU) *prcr98@gmail.com*

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optimization task, introduced a robust Policy-Driven Optimizer, and defined a flexible policy-based framework for application-aware routing.

Key innovations include:

1. The **Cost Vector formulation**, representing objective cost components.
2. The **Policy Weight Vector**, allowing flexible, application-specific routing.
3. The scalar product $\Pi \cdot C$ as the unified cost metric.
4. Formal proofs of correctness, fault tolerance, monotonicity, and linear scalability.
5. A three-stage validation framework (Simulation, Prototype, Production).
6. Comprehensive security considerations for enterprise deployment.

PBDR v2.0 adds:

7. The **Cloud Score Model**, enabling dynamic switching between local and cloud resources.
8. The **Economic Cost Model**, integrating real-time GPU power monitoring for cost-aware routing.
9. The **Hierarchical Decision Optimality Theorem** (Theorem 5), proving conditional optimality of the two-level decision process within the selected environment.
10. The **Versioned State Protocol** for cache consistency without centralized coordination.
11. The **Federated Policy Learning** architecture for privacy-preserving policy optimization.
12. Support for **40+ cloud providers** and **full streaming** capability.

Through formal proofs and analysis, we have demonstrated the system's scalability (Theorem 4: \(O(N)\) complexity), correctness (Theorem 1), fault tolerance (Theorem 2), monotonicity (Theorem 3), and hierarchical decision optimality (Theorem 5). The Monitor API specification ensures a clear separation of concerns. The network traffic analysis confirms that the discovery protocol introduces negligible overhead.

By positioning PBDR as a middleware platform with a clean separation of node state publication, cost vector computation, and policy application, we have shown its potential to go beyond a simple use-case for spare GPU resources. It serves as a foundational building block for future enterprise AI platforms that are private, cost-effective, and adaptable to diverse organizational needs. PBDR v2.0 extends this vision to encompass hybrid cloud deployments, providing organizations with maximum flexibility in managing their AI infrastructure.

The reference implementation is available at https://github.com/oqo-ai/OQOAI-PBDR and has been validated in real-world enterprise deployments with 50+ nodes, demonstrating significant cost savings and performance improvements. The system serves as a practical, production-ready solution for organizations seeking to leverage their existing hardware investments while maintaining flexibility to utilize cloud resources when beneficial.

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