

Ancillary Services Work Group Issue Paper AS-3

Issue: RTO's Role In Ancillary Service Markets

What should be RTO West's role in Ancillary Service markets as "Provider of Last Resort" of Ancillary Services for those SCs who have not prearranged for their shares of ancillary services by either self-providing or self-tracking?

How can participants interested in acquiring ancillary services on a long-term basis (i.e., for periods longer than a day) do so?

What should be the RTO's role in procuring those Ancillary Services which must be procured on a long-term contract basis?

Background

As stated in FERC Order 2000 the Commission is neutral to whether or not the RTO actually runs a market to supply Ancillary Services. However, FERC has clearly stated in Order 2000 that an RTO must serve as the provider of last resort of all Ancillary Services required by Order No. 888 and subsequent orders and that the RTO must also put into place adequate arrangements to enable market participants to self-provide those services.

The RTO could fulfill its Ancillary Services obligations through a variety of mechanisms, including long-term contractual arrangements, indirect or direct control of specified generation facilities, operation of an Ancillary Services procurement system or facilitation of external market mechanisms. Regardless of the method(s) of provision used by the RTO, the Ancillary Services must be included in the RTO tariff so that transmission customers will have access to one-stop shopping for transmission service.

Recommendation

We recommend that the RTO meet the FERC requirements by acquiring, at a minimum, Regulation, Load Following, Reserves and Supplemental Energy in the day-ahead and hour-ahead markets in order to supply the requirements for those Ancillary Services not prearranged by SCs. The RTO must as stated in Order 2000 acquire those Ancillary Services at competitive costs.

Day-ahead acquisition is consistent with both the FERC efficiency requirement and with the general desire to keep RTO West "Lite". This desire also suggests that the RTO should not build and operate its own procurement system but rather that RTO West facilitate the establishment of an external market mechanism to meet its provider of last

resort obligation. The RTO would do so by specifying those criteria that an external market mechanism must meet; certifying that one or more external market mechanisms do indeed meet those criteria; and in the event that no external market mechanisms meet those criteria, by putting forth a Request for Proposals (RFP) to create such a mechanism.

The RTO certification criteria would also require that such an external market mechanism provide the capability for market participants to buy, sell and trade Ancillary Services on a longer-term basis.

If it were necessary for the RTO to issue an RFP to create such a market mechanism, the RTO would enter into a contract with a third-party that committed to meet the requirements set forth in the RFP. The RFP would be bid on a competitive basis and could be re-issued periodically (every 1-3 years, for example) to ensure that RTO West's participants are being appropriately served at a reasonable cost. The cost of the third-party-operated market would be borne by those using the market. In addition to this approach, there are likely other approaches through which the RTO could fulfill its obligation without operating its own internal procurement system.

To acquire those Ancillary Services that cannot be procured in short-term day-ahead markets, the RTO would enter into longer-term (seasonal, annual or longer-term) commitments with the suppliers of these services. Ancillary Services that may be acquired on a long-term basis are Voltage Control and Black Start capability.

The RTO will be the sole supplier of Scheduling and Dispatch Service

Discussion

The above recommendation is based upon the premises that the RTO should have a small role in the marketplace (i.e., it should not take a "long" position in energy or capacity) and that the RTO should have no role in assuring long-term resource adequacy for energy or for IOS services. However, it is assumed that the RTO Tariff will also provide the RTO with the authority to, under emergency conditions, obtain unused resources and to order the back down of energy-producing resources in order to meet the Ancillary Services requirements of the control area.

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