

Develop Provider of Last Resort Options For RTO role:

The Stage One ancillary service documents contemplated that scheduling coordinators would be the primary source of IOS inputs to the RTO. SCs would either provide the IOS off of resources under their control or the SC would procure the IOS from a third party in the Ancillary Service Market or bilaterally. There is a question of whether this goal is compatible with the RTO serving as the “provider of last resort” since the RTO will likely have advantageous market information and an incentive to modify the market to enhance RTO purchases of IOS rather than the overall market for IOS. While the RTO’s efforts might reduce Ancillary Service costs in the short term the market of last resort would then tend to become a market of first resort that would stifle innovation and distort the energy markets.

The Ancillary Services Small Group has discussed two options to avoid overuse of the RTO as a provider of ancillary services:

- 1) In order to schedule SC’s must provide the IOS resources to meet obligations at the point of scheduling. The RTO would be free of involvement in the IOS markets with the exception of procuring IOS for unanticipated ancillary service needs not incorporated into the scheduling obligations.
- 2) Scheduling Coordinators are free to turn to the RTO for all or a portion of their IOS obligations, but the RTO charges for those ancillary services will be developed to discourage overuse of the RTO as a provider.

Option One – SCs Include Full IOS Requirements with Preschedule

The RTO will forecast system loads and generation to determine the expected Ancillary Service requirements and allocate those requirements by geographic area as a percentage of SC load or generation.

Scheduling coordinators will apply these percentages to their load and generation schedules to calculate the IOS required to schedule. The SC will then allocate generation or purchase resources to provide the IOS sufficient to meet their obligations.

If the overall Ancillary requirements or the required dispersion changes due to system conditions or Scheduling Coordinator dispatch choices the RTO will have the ability to procure additional IOS from the market.

To the extent a SC under or over schedules IOS as determined by meter data, it can trade with other SCs or pay the RTO for procurement.

Option 1 Issues

IOS Provision as a scheduling requirement places increased emphasis on the forecasting, translation and allocation of IOS obligations since either the RTO or the SC may be faced with a result they do not accept as legitimate. Unless the RTO and scheduling coordinators agree on the forecast and the forecast closely reflects reality there will be a strong incentive on the part of SCs to either doctor forecasts or (if the RTO performs them) influence and game the RTO expectations.

Need to figure out how the Ancillary Services associated with real time and hour-ahead changes/new transactions are accounted for. Do day-ahead scheduling SCs just pick this up, is it purchased by the RTO and allocated, or just uplifted?

When does the RTO step in for “emergency” purposes? Can the RTO acquire IOS after the hour-ahead scheduling deadline? How would the selling SC “schedule?”

To the extent some IOS are based on generation the SC responsible for them will not be known until that party submits a schedule. Obligations based on load will be easier to assign in terms of the responsible SC, but the level itself will be subject to debate.

Will the IOS requirement be tied to each schedule individually or the SC’s portfolio of schedules? The former increases the scheduling burden on SCs and the RTO while the latter raises questions about whether the RTO will be able to effectively use the option of rejecting schedules without major disruption to both the system and markets.

Option 2 – SCs Choose How Much IOS to Schedule at Each Window

The RTO will forecast system loads and generation to determine the expected Ancillary Service requirements and allocate those requirements by geographic area as a percentage of load or generation.

Scheduling Coordinators will apply these requirements to their internal load forecasts and generation commitments to determine what their expected IOS obligation will be.

The SC will schedule the IOS amounts it chooses to. At each window (day-ahead and hour-ahead) the RTO will evaluate the schedules and procure additional amounts over those provided by SCs to meet a zonal standard (say 80% of the total at day-ahead and 100% at hour-ahead).

To the extent a SC under or over schedules IOS as determined by meter data, it can trade with other SCs or pay the RTO for procurement.

The RTO will compare the self-provision and self-tracking to the actual needs and charge those SCs that under provided. If the procurement from the RTO is outside a band of “reasonableness” the SC will pay a premium over the procurement cost to discourage over reliance on the RTO. The premium will be allocated (back to SCs who provided, to the uplift, or other).

Option 2 Issues

Without adequate carrots/sticks for SCs to bring sufficient IOS to the table in the appropriate scheduling windows, the RTO will place large demands on the day ahead/hour ahead markets. Recognizing that this is risky from both a reliability and price volatility standpoint, the RTO is then forced into the forward market, reducing incentives for a dynamic and innovative external market to develop.

If the SC signals its intention to rely on the RTO to provide IOS (by scheduling below it’s forecasted allocation) and later changes its mind and provides IOS in the Schedule Adjustment Process, the RTO may procure IOS that are unnecessary. Some sort of take-or-pay mechanism may be needed.