


Operating Reserves / Revenue Sufficiency Guarantee



**Joint and Common Market
Carmel, IN
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Operating Reserves/RSG

- Both Midwest ISO and PJM provide payments to generators that are committed/scheduled by the RTO in the Day Ahead and Real Time Markets when necessary to cover as-offered costs
- Generation that is committed and scheduled by the RTO is guaranteed to make offer, including start-ups and no-loads.
- Preserves incentive for generation to follow commitment instructions and real-time dispatch signals

Operating Reserves/RSG

- Both markets allocate Operating Reserves/Revenue Sufficiency Guarantee (RSG) costs separately for the Day-ahead and Real Time (Balancing) Markets
- Allocation in both markets is based on cost causation principles
 - Those that contribute to the need to make Operating Reserves/RSG payments are allocated costs
 - In general, DA costs are allocated to DA load plus exports, RT costs are allocated to deviations from DA schedules.

Operating Reserves/RSG

- Differences exist in allocation details between PJM and Midwest ISO in two major areas:
 - PJM allocates Balancing Operating Reserve charges across entire 24-hour periods; Midwest ISO allocates Balancing RSG charges paid to each generator across the hours that the generator operated.
 - PJM nets deviations from individual transactions to determine deviations from DA schedules; Midwest ISO calculates deviations based on each individual schedule change
- Hourly allocations increase RSG volatility, and lack of netting increases cost of scheduling transactions in real time.

Operating Reserves/RSG

- Midwest ISO will propose changes through its stakeholder process that will better align these allocation rules.
- Reconciliation of these differences will reduce transaction hurdle rates and increase participants' ability to schedule between the RTOs.

Market Convergence: Costs and Benefits

	Cost		<i>Potential Benefit</i>	
	Ongoing (Incremental \$/year)	Implem- entation	\$ / transaction	\$ / year
Short Term: Common Cost Allocations Rules	\$None	\$Low	\$Medium	\$Low- Medium