

# ***Operating Reserve / Revenue Sufficiency Guarantee Alignment Joint and Common Market Initiative***

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**Joint Stakeholder Meeting  
October 5, 2007**



- In 2005, the Market Implementation Committee (MIC) created the Reserve Markets Working Group (RMWG) to develop proposed modifications to the Operating Reserve mechanism.
- After a period of discussion, analysis and stakeholder interaction, the Working Group identified a specific list of modifications that could be made to improve to the Operating Reserve mechanism.
- The current proposal for a package of Operating Reserve Changes was introduced to the MIC in May, and an endorsement vote taken on July 25, 2007.
- The PJM Markets and Reliability Committee will vote on the package at its October 24<sup>th</sup> meeting.

**The results of the MIC vote were: 58 in favor and 31 opposed with 15 abstentions.**


- To summarize the expected outcome of the proposed modifications, the modified Operating Reserve Business Rules are designed to:
  - Provide incentives for participants to bid their Day-ahead quantities as close as possible to what they expect in the Balancing Market, thereby leading to increased convergence between Day-Ahead and Real Time prices and increased market efficiency
  - Provide incentive for generators to follow PJM dispatch instructions and provide flexibility, thus increasing market efficiency and system reliability; and
  - Collect the costs of balancing operating reserve and appropriately allocate and assign those costs to transactions in areas that contribute to the additional costs.

# Package of Proposed PJM BOR Changes

Proposed Business Rule Change	Impact	Description
<b>Segmented Make-Whole Payments</b>	Gen Credits	Segment Make-Whole Payments as a function of the greater of the DA Schedule or Min Run Time
<b>Minimum Generator Operating Parameters – Parameter Limited Schedules</b>	Gen Credits	Define operator objectives and the associated relevant market for solutions. Apply the defined market power test to the defined market. Apply market power mitigation rules only when the test indicates the potential to exercise market power.
<b>Use Ramp-Limited Desired MW to determine deviations</b>	Gen Deviations	PJM will determine whether a generator is following dispatch and calculate the deviation based on a new calculation incorporating ramp limited desired MW
<b>Supplier Netting at the Bus (Plant)</b>	Gen Deviations	Generators that deviate from RT dispatch may offset deviations by another generator at the same bus.
<b>Regional Balancing Operating Reserve Allocation</b>	Allocation	Allocate OR charges that were accrued for local constraints to the regions, creating “regional” rates for Balancing Operating Reserve charges.
<b>Netting (by Zone, Interface, Hub)</b>	Allocation	Demand bucket should be netted <u>locationally</u> by zone, hub, or interface. Supply bucket should be netted <u>locationally</u> by zone, hub, or interface.
<b>Balancing Operating Reserve Cost Allocation</b>	Allocation	For the purposes of allocation of Balancing Operating Reserve charges, PJM will determine and identify the reasons for which operating reserve credits are earned.  The results of this determination will identify the resources for which Balancing Operating Reserve credits will be allocated to Real-time deviations from Day-Ahead schedules and identify the resources for which Balancing Operating Reserve credits will should be allocated to real-time load share plus export

- The Midwest ISO RSG market redesign:
  - is limited to design changes associated with distribution of RSG charges.
  - should allow the Midwest ISO to commit the capacity it deems necessary to reliably operate the grid at the least commitment cost;
  - distributes RSG charges on a cost causation basis;
  - should be part of a transparent and equitable implementation process, in order that MPs can better hedge potential RSG charges as part of their transaction decisions; and
  - should be incentive compatible with the Midwest ISO's Day-Ahead and Real-Time Energy Markets, as well as with adjacent markets when possible;

- RSG task force has met monthly through the summer and will continue to meet through year's end.
- Midwest ISO has developed a strawman RSG Re-design Whitepaper that proposes a distribution of RSG charges in alignment with the guiding principles.
- Strawman has been discussed at the last three RSG stakeholder meetings; examples have been developed to provide further clarity.
- Issues and concerns continue to be raised by stakeholders and addressed by Midwest ISO staff in later meetings.
- Draft tariff language is being developed.
- Next meeting: October 10, 2007.

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- Focus of the two individual RTO processes is two-fold:
    - Minimizing these charges
    - Getting their respective allocations right.
  - Once the two RTO allocations are in relative “steady-state”, joint discussions could be held regarding alignment of certain aspects components.
  - The two RTOs welcome comments on stakeholder interest in such joint discussions.