

# **Operating Reserve Cost Allocation**

**Business Issues Committee  
November 8, 2006**

# Agenda

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- ◆ Optimization Process
- ◆ Resource Costs
- ◆ Settlement Mechanisms

# Optimization Process

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- ◆ Software algorithm selects the least total production cost mix of resources to satisfy energy, and reserve, regulation and transmission reliability criteria over the commitment horizon.
- ◆ Prices for energy, reserve and regulation set simultaneously (co-optimized solution) by the marginal providers of the products.
  - *Resource selection not based solely on peak load conditions, nor marginal costs of providers*

# Resource Costs

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- ◆ Costs associated with resource selection:
  - *Scheduling costs* -
    - Costs associated with operating resources at particular schedules
    - Costs incurred specific to the dispatch period
    - Captured in the energy, reserve and regulation clearing prices
  - *Commitment costs* -
    - Costs associated with having the resources on-line
    - Costs incurred specific to the commitment horizon and cost recovery period (e.g. 24 hours)
    - Captured in BPCG cost-recovery mechanisms
  - *Energy and reserve products treated consistently*

# Issue Discussion

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- ◆ Should Off-Peak Load Pay for Peak Load Reserve Scheduling?
  - *Competitive market design requires short-run pricing signals to be set by marginal providers of services to ensure:*
    - Consistent incentives for all providers of services
    - Cost recovery in the short run
  - *Average costing models do not fully capture the value of services in the price signals*

# Settlement Mechanisms

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- ◆ Short term price signals should be consistent between payers and providers of services:
  - *Scheduling costs incurred in hour and allocated to withdrawals in that hour*
  - *Commitment costs incurred over day and allocated to withdrawals in that day*
  - *Energy and reserve products treated consistently*