

**SUMMARY OF ANCILLARY SERVICES PROBLEMS AND SOLUTIONS SINCE MARKET STARTUP**

Background: At the January 21 Market Issues Committee Meeting the ISO staff was asked to provide a background of major Ancillary Service Issues that have been identified since the summer of 1998. A key source for issue identification was the ISO staff response to the MSC report, esp. Appendix C, “The ISO’s Detailed Work Plan”. The Market Issues Committee asked for a status of the items including those elements already implemented or approved by the Governing Board. This listing only covers major items, and does not include all proposed solutions being considered for implementation by the A/S Redesign Activity.

<b>Major A/S Issue identified</b>	<b>Proposed Solution</b>	<b>Status</b>	<b>Impact</b>
IOUs “discouraged” from bidding into A/S auctions because of FERC Cost-based caps. These generators are staying out of the A/S auctions in favor of supplemental energy bids	REPA implemented, then re-adjusted to zero. (Elimination of FERC cost-based caps below should preclude future need)	Complete	Supply
	FERC order of October, 1998 removes cost-based capacity caps	Complete	Supply
Suppliers from outside the control area have been discouraged from bidding A/S	Change software and procedures to allow import of A/S	Implemented 8/8/98	Supply
	Provide generators outside the control area the ability to provide regulation	Import of regulation could be implemented as part of RIG project	Supply
	Provide generators the ability to bid and self-provide from the same unit.	Long-term AS Redesign	Supply
Lack of coordination between CONG and ASM (New operating levels set by	Coordination of CONG and ASM (Note: this is different than “integration” of CONG and ASM that	Complete	Supply

CONG not factored in to ASM)	will allow A/S to compete equally with energy for transmission capacity.		
Parties to existing contracts are discouraged from bidding into A/S markets	Encourage changes in existing contracts to better facilitate municipals, QF,s and other entities to bid into ISO A/S markets.	Ongoing though Existing Rights Working Group	Supply
A/S procurement based on scheduled loads is causing insufficient procurement in day ahead market	Procurement will be based on ISO forecast instead of SC schedules	Complete	Supply
A/S allocation based on scheduled loads provides an incentive to underschedule load	Allocation will be based on metered demand instead of scheduled loads	Approved by the board in November 1998.	Supply
Perverse incentives created by RMR units.	RMR negotiations	Ongoing	Supply
Ambiguous dispatch practices for provision of imbalance energy.	Being addressed by response to operational audit and Automated BEEP.	Part of 3/1 recommendation	Supply
Improve the reliability and quality of reserves. Because the ISO is not confident in the availability of reserves bid, more A/S is being procured.	Verification of eligibility of AS bids	Complete	Demand
Concern that committed A/S supplies may not be available when called	NO-Pay provision for A/S capacity awards.	Approved by the Board in November 1998.	Demand

upon.			
Uninstructed Deviations – Units incented not to follow dispatch instructions	Compromise proposal that eliminates all payments if dispatch order not followed.	Part of 3/1 recommendation	Demand
Uninstructed Deviations – Units that provide large uninstructed deviations in real-time.	Originally addressed by Min-Max proposal. Replacement reserve proposal incents units to participate in the markets so should help alleviate this problem.	Monitor	Demand, Efficiency
Inability of BEEP to track operator dispatch instructions. Also difficulty in issuing dispatch instructions to several units in 10-minute intervals.	Automated BEEP	Part of 3/1 recommendation	Demand
A/S auction design can procure high priced bids when lower priced options are available	“Rational Buyer”	Part of 3/1 recommendation	Efficiency
Reg-up, Reg-down procured separately but priced together lets scarce commodity set MCP for both. Analysis shows major daily cost impact.	Revise software to price Reg-up and Reg-down separately.	Part of 3/1 recommendation	Efficiency
Need during peak times for out-of-	Change procurement methodology for	Part of 3/1	Efficiency,

market multi-hour procurement.	replacement reserve.	recommendation	Supply
Non-firm exports are a source of A/S that we cannot take advantage of	Modify software to allow non-firm exports to provide Non-spin and replacement reserves.	Long-Term Design Options	Supply