



# Memorandum

To: Grid Reliability/Operations Committee  
Market Issues/ADR Committee

From: Kellan Fluckiger, Vice President, Operations  
Roger E. Smith, Senior Regulatory Counsel  
Stephen Greenleaf, Director of Regulatory Affairs

CC: ISO Board, ISO Officers

Date: August 23, 1999

Re: ***Alternative Pricing for Out-Of-Market Calls***

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## EXECUTIVE SUMMARY

***This item requires Board action.*** Management is proposing to allow generators that are called Out-of-Market (OOM) to choose how they are to be compensated for such calls. The proposal is a product of the Generator Roundtable stakeholder process.

OOM calls and proper settlement is an issue that has been with us since start-up and will continue to be with us under various circumstances as an ongoing matter. Under the ISO Tariff, generators called OOM are paid the Hourly Ex-Post Price. Some generators believe that payment for an OOM call at the Hourly Ex-Post Price does not adequately compensate them for their costs of providing the energy. Examples of reasons for OOM calls are: (1) outage scheduling for transmission lines, (2) other equipment outages, and (3) unusual locational generation requirements. In addition, RMR generation already on line has been available as a backstop for meeting reliability energy needs when otherwise OOM calls would be required. As we significantly decrease the amount of RMR generation (beginning in 2000) we risk increasing OOM calls. Thus, Management proposes to give generators the choice of being paid the Hourly Ex-Post Price or a cost-based price based on verifiable start-up and variable costs. Under this proposal, a generator could only make the election between of Hourly Ex-Post Pricing or cost-based pricing for OOM once per year. In other words, a generator could not switch back and forth between the options except at yearly intervals. Draft Tariff language implementing the proposal is contained here as **Attachment A**.

Under the cost-based alternative, generators would be paid their verifiable start-up costs and variable costs based on their certified heat rate, indexed to gas prices. Generators would be required to file with the ISO their most recent heat rate curves no later than December 31 of each year. The heat rate curves and the indexed price of gas would be used to compensate those generators who selected the cost-based pricing alternative for OOM calls. As noted above, a generator could only make the election between Hourly Ex Post Pricing and cost-based

pricing once each year. After the selection, the pricing mechanism to be applied to all OOM calls could not be changed until the following year.

Therefore, Management proposes the following motion:

***MOVED, that the Committee recommends that the Board:***

- ***approve alternative pricing for Out-of-Market calls based on the recovery of verifiable start-up costs and variable costs based on the generator's certified heat rate, indexed to gas prices, and:***
- ***direct Management to file an amendment to the ISO Tariff implementing this proposal.***

## **ISSUE STATEMENT**

OOM calls are used in circumstances where:

- (1) there is a deficiency of Supplemental Energy bids in the Balancing Energy and Ex Post Pricing (BEEP) stack;
- (2) there are no available bids in BEEP that are effective in resolving a system condition (e.g., due to locational requirements); or
- (3) a System Emergency or deteriorating condition is imminent or threatened ( ISO Tariff § 5.6.1).

Currently, if a generator has bid into the Imbalance Energy market and effectively meets the particular system need, it will be paid the BEEP Interval Ex-Post Price or, if it is called Out-of-Sequence (OOS), it will be paid its bid price (unless it has the ability to exercise locational market power). However, if a generating unit is called OOM (i.e., it has not bid into the market and there is a deficiency, or an inability, of bids in the BEEP stack to address the system need), it is paid the Hourly Ex-Post Price (ISO Tariff §§ 11.2.4.1, contained in temporary section 23, and 11.2.4.2) . The Hourly Ex-Post Price is the weighted averaged of BEEP Interval Ex-Post Prices during each hour.

Generator Unit owners have repeatedly indicated, through correspondence and the Generator Roundtable meetings, that there are problems exist with OOM payment provisions in the ISO Tariff and that the ISO should revise OOM pricing. Specifically, they state that when the ISO must resort to an OOM call, it is unlikely that the Hourly Ex-Post Price will compensate OOM generators for their start-up and variable costs. Due to locational concerns, missed load estimates or missed market price estimates, situations occasionally occur where a needed generator is not on-line and, if called at the Hourly Ex-Post Price, will lose money. For these reasons and potentially others, we believe a different payment mechanism for OOM calls is warranted.

In addition, ever since start-up there have been circumstances where a transmission line outage has required local generation to be on-line in order to accommodate the necessary maintenance work. As a consequence of this need, some outages have been managed by RMR generation, a use which was not contemplated for RMR. As we move in the direction of reducing our RMR requirements, another mechanism and payment is appropriate to address the ISO's locational requirements. A market approach is clearly inappropriate, since the ISO's location-specific needs could give rise to complete market power.

## **MANAGEMENT RECOMMENDATION**

Management recommends providing the OOM payment option to Generator Unit Owners. This option is responsive to the needs of market participants and does not eliminate the way in which OOM calls are priced under the ISO Tariff. It merely gives generators a choice on the pricing to be used when their units are called OOM.