COST ALLOCATION

MWG JUNE 16 - 17

Helping our members work together to keep the lights on... today and in the future.

SIR53 COST ALLOCATION (SPP MMU)

- **Purpose:**
  - Review existing Market cost allocation
  - Review the alignment of the current market cost allocation methodology against the FERC NOPR on Uplift Cost Allocation from 2017, SPP's stated cost allocation methodology, and sound economic principles. Cost allocation has been a recurring topic of discussion at the MWG as different stakeholders have raised concerns of inequity. As SPP and its stakeholders are pursuing new products like ramp and uncertainty, these concerns are resurfacing. The MMU has taken the opportunity to comment on how the allocation of certain market costs fall out across different segments of the market. The MMU recommends a joint study with SPP on proper cost allocation that incentivize market activities that promote market efficiency.
- **Potential Benefit:**
  - Increased market efficiency, increased transparency, and better price formation

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- **Additional MMU Comments**
- The MMU has observed some traits of cost allocation that do not appear to follow the SPP stated direction of allocating costs to cost causers. We would like to work with SPP and its stakeholders to evaluate the current allocations and recommend revisions where appropriate. Following are some of the allocations observed:
- Virtual Offers were allocated 50% of the $69.5 million dollars of RUC Make-Whole Payments in 2019.
- Net RTBM congestion payments to Virtual Offers fund DA TCR(s) but are allocated through RNU.
- Out-of-Merit payments are for reliability and are allocated through RNU which includes Virtual Bids and Offers.
- Regulation Deployment Adjustment represents the cost of deploying cleared regulation and is allocated through RNU while the cost of reserving regulation is allocated to load and net exports.
- Market-to-Market activity primarily impacts prices near the seam (with some exceptions) but payments and charges are allocated across the region through RNU.
- It is the MMU’s understanding from SPP operations that the regulation requirement is increased when renewable forecasts are high and/or deviate significantly from one another. The cost of acquiring additional regulation is passed on to load and net exports as an uplift.
- The same may hold true for ramp and uncertainty as currently designed.

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- **Potential Risk and Known Impact**
  - Any change to incentives, regardless of gains realized, has the potential of creating new moral hazards
  - As a study, this initiative has no market impacts. Recommendations resulting from this study could have both isolated and broad impacts.
- **Market Philosophy Impacts: Market Efficiency, Market Reliability, Price Formation, Price Convergence, Market Transparency**
  - Price Formation, Market Efficiency, Market Transparency

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- **Potential System / Process Impacts**
  - Markets, Settlements, Operations, Majority of Systems
- **Potential MCE Performance Impact: High, Medium, Low**
  - Medium
- **Potential Complexity: High, Medium, Low**
  - Design: High
  - Implementation: High

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- **SPP RTO Comments**

  Cost allocation goes to the core of SPP as a whole. A review of cost allocation will need to be holistic and begin at tariff based rates and move downward to the planning process, supply and resource adequacy, TCR/ARR, operational planning, Day-Ahead and Real-Time Markets and finally the operational models. An effort of this size will need significant involvement from a multijurisdictional set of working groups.