MMU EMUSTF Phase 1: Proposal Summary

The Independent Market Monitor for PJM
December 11, 2014
This page intentionally left blank.
Phase 1 Proposal

The MMU is supportive of PJM’s phase 1 proposal (package B). PJM’s package B contains recommendations made by the MMU in several State of the Market Reports. These recommendations are:  

- Day-Ahead Operating Reserve Elimination
- Self Schedule Start
- Lost Opportunity Cost Calculation
- Reactive Service Credits and Balancing Operating Reserve Credits

The MMU proposal contains one recommendation not included in PJM’s package B. The MMU recommends reincorporating net regulation revenues as an offset in the balancing operating reserve credit calculation.

Net Regulation Revenues Offset

On October 1, 2008, PJM filed revisions to the Operating Agreement and Tariff with FERC related to the Regulation Market. The filing included four elements: implement the TPS test in the Regulation Market; increase the regulation offer adder from $7.50 per MW to $12.00 per MW; eliminate the use of net regulation revenues as an offset in the balancing operating reserve calculation; and calculate the lost opportunity cost on the lower of a unit’s price-based or cost-based offer.

The elimination of the use of net regulation revenues as an offset in the balancing operating reserve calculation had a direct impact on the level of energy uplift paid to participants that regulate while operating noneconomic. The result of not using the net regulation revenues as an offset in the balancing operating reserve credit calculation is that PJM does not accurately calculate whether a unit is running at a loss. PJM procures energy, regulation, synchronized and non-synchronized reserves in a jointly optimized manner. PJM determines the mix of resources that could provide all of those services in a least-cost manner. Excluding the net regulation revenues from the balancing operating reserve credit calculation is inconsistent with the process used by PJM to procure these services.

Another issue related to this exclusion is the treatment of pool-scheduled units that elect to self-schedule a portion of their capacity for regulation. A unit can be pool-scheduled for energy, which means PJM may commit or dispatch the unit based on economics, but

---

1 See the 2014 Quarterly State of the Market Report for PJM: January through March, Section 4, “Energy Uplift” at “Credits Recommendations” and “Allocation Recommendations” for a description of these recommendations.
it can also self-schedule some of its capacity for regulation. When this happens the capacity self-scheduled for regulation is treated as a price-taker, but in the Energy Market any increase in MW to provide regulation are treated as additional costs, which can result in increased balancing operating reserve credits whenever the real-time LMP is lower than the unit’s offer. For example, if a unit raises its economic minimum in order to provide regulation, the result is increased energy uplift.

The MMU recommends reincorporating the use of net regulation revenues as an offset in the calculation of balancing operating reserve credits. In 2013 and the first nine months of 2014, using net regulation revenues as an offset in the balancing operating reserve calculation would have resulted in a net decrease of balancing operating reserve charges of $22.7 million, of which $18.4 million or 81.2 percent was due to generators that elected to self-schedule for regulation while being noneconomic and receiving balancing operating reserve credits.²

² These estimates take into account the elimination of the day-ahead operating reserve category.