Revised Synchronized Reserve Offer Margin

EPFSTF
June 25, 2018

Catherine Tyler
Revise the $7.50 per MW Margin

- The MMU calculated the $7.50 per MW margin in 2002 based on the difference between synchronized reserve revenues and costs.
- The MMU is providing an update to the analysis with an appropriate margin for 2018.
- Based on synchronized reserve prices, the revised margin is expected to be lower.
Considerations

• Synchronized reserve prices, including opportunity costs, fall well below $7.50 per MWh most of the time.
• There are no explicit costs of providing synchronized reserves.
• The demonstrated cost of providing reserves consists of only the energy market lost opportunity cost.
• The margin is intended to reflect a margin consistent with a competitive market.
Analysis

• The MMU analyzed all cleared offers for synchronized reserves from January 2017 through March 2018.
• Offers at or above $7.50 per MWh clear the market infrequently.
• The average cleared offer, including offers at or above $7.50 per MWh, is $3.80 per MWh.
Observations

• The current margin exceeds the offers of current resources providing synchronized reserves.
• Any unquantifiable costs would be reflected in competitively developed offers.
• If an unquantifiable cost exists, it is less than $7.50 per MWh.
• The average cleared offer price of $3.80 per MWh is higher than half of all cleared offers.
Recommendation

• The IMM recommends revising the synchronized reserve offer margin to $3.80 per MWh.