



Problem Statement / Issue Charge

Regulation Market Cost-Based Offers

Problem Statement:

The current cost of regulation is defined in Manual 15 (Cost Development Guidelines) as a \$/MWh adder. Costs in Manual 15 include the fuel cost increase and the cost of heat rate degradation to operate at lower levels, the cost increase due to heat rate degradation to operate at a nonsteady state, the cost increase in VOM to regulate, and an adder. All of these costs are defined on a \$/MWh basis. None of these costs are defined to vary with regulation signal (miles per MW).

Following the implementation of new regulation market rules on October 1, 2012, regulation offers include capability and performance offers. Capability offers are defined as the cost to reserve a resource for regulation, defined as a \$/MWh cost. Performance offers are defined as the costs associated with tracking the regulation signal (miles per MW) defined as a \$/mile cost. Manual 15 currently defines the cost of regulation solely as a \$/MWh cost. The new regulation rules account for the possibility that the \$/mile cost offers could include performance costs that vary with the regulation signal (miles per MW). These offers, if any, should include only costs that vary on an incremental per mile basis. As these costs are currently not defined in Manual 15 as a \$/mile charge, Manual 15 should be modified to define them, if there are any such costs.

Issue Source:

The current costs of regulation are described in Manual 15 as a \$/MWh charge, while the new regulation market rules contemplate that the costs of regulation could include both \$/MWh costs and \$/mile costs. Manual 15 does not reflect this possibility.

Stakeholder Group Assignment:

The issue will be presented at the October 15, 2012 CDS meeting. The MMU recommends that the CDS resolve the issue without assignment to another group.

Key Work Activities:

1. Review the rules governing cost-based regulation offers;
2. Review the definition of cost-based offers based on the October 1, 2012, regulation market changes.
3. Determine whether any change is required and develop any required solutions to reflect accurate cost-based regulation offers.

4. Develop Manual changes as necessary.

Expected Deliverables

Revised Manual language.

Expected Overall Duration of Work

The MMU expects that this work effort can be completed within six months.