

## Operating Reserve

Day-ahead and real-time operating reserve credits are paid to market participants under specified conditions in order to ensure that resources are not required to operate for the PJM system at a loss.<sup>1</sup> Sometimes referred to as uplift or make whole, these payments are intended to be one of the incentives to generation owners to offer their energy to the PJM Energy Market at marginal cost and to operate their units at the direction of PJM dispatchers. These credits are paid by PJM market participants as operating reserve charges.

### Overview

#### Operating Reserve Results

- **Operating Reserve Charges.** Total operating reserve charges increased by 111.8 percent in the first three months of 2013 compared to the first three months of 2012, to a total of \$260.2 million. Total operating reserve charges in the first three months of 2013 were \$260.2 million. The day-ahead operating reserve charges proportion of total operating reserve charges was 9.0 percent, the balancing operating reserve charges proportion was 61.1 percent, the reactive services charges proportion was 21.4 percent, the synchronous condensing charges proportion was 0.001 percent and the black start services charges proportion was 8.5 percent.
- **Operating Reserve Rates.** The day-ahead operating reserve rate averaged \$0.082 per MWh, the day-ahead operating reserve rate including unallocated congestion charges averaged \$0.114 per MWh, the balancing operating reserve reliability rates averaged \$0.058, \$0.065 and \$0.003 per MWh for the RTO, Eastern and Western Regions, the balancing operating reserve deviation rates averaged \$1.001, \$5.967 and \$0.055 per MWh for the RTO, Eastern and Western Regions. Lost opportunity cost rate averaged \$0.655 per MWh and canceled resources rate averaged \$0.0002 per MWh.

<sup>1</sup> See the 2012 State of the Market Report for PJM, Volume II, Section 3, "Operating Reserve" at "Description of Operating Reserves" pp. 99-103 for a full description of how operating reserve credits and charges are calculated.

#### Characteristics of Credits

- **Types of units.** Combined cycles received 52.6 percent of all day-ahead generator credits and 69.2 percent of all balancing generator credits. Combustion turbines and diesels received 77.7 percent of the lost opportunity cost credits. Combined cycles and coal units received 88.7 percent of all reactive services credits.
- **Economic – Noneconomic Generation.** In the first three months of 2013, 82.3 percent of the day-ahead generation eligible for operating reserve credits was economic and 67.3 percent of the real-time generation eligible for operating reserve credits was economic.

#### Geography of Balancing Charges and Credits

- In the first three months of 2013, 79.7 percent of all charges allocated regionally were paid by transactions, demand and generators located in control zones, 6.3 percent by transactions at hubs and 14.0 percent by transactions at interfaces.
- Generators in the Eastern Region paid 17.4 percent of all RTO and Eastern Region balancing generator charges, including lost opportunity cost and canceled resources charges, and received 87.6 percent of all balancing generator credits, including lost opportunity cost and canceled resources credits. Generators in the Western Region paid 14.7 percent of all RTO and Western Region balancing generator charges, including lost opportunity cost and canceled resources charges, and received 12.4 percent of all balancing generator credits, including lost opportunity cost and canceled resources credits.
- Generators paid 13.7 percent of all operating reserve charges (excluding charges for resources controlling local transmission constraints) and received 99.99 percent of all credits.

#### Operating Reserve Issues

- **Concentration of Operating Reserve Credits:** The top 10 units receiving operating reserve credits received 48.6 percent of all credits. The top 10 organizations received 90.8 percent of all credits. Concentration indexes

for the three largest operating reserve categories classifies them as highly concentrated. Day-ahead operating reserves HHI was 5372, balancing operating reserves was 5291 and lost opportunity cost HHI was 5418.

- **Day-Ahead Unit Commitment for Reliability:** In the first three months of 2013, 4.1 percent of the total day-ahead generation was scheduled as must run by PJM, of which, 67.4 percent was made whole.
- **Lost Opportunity Cost Credits:** In the first three months of 2013, lost opportunity cost credits decreased by \$1.2 million compared to the first three months of 2012. In the first three months of 2013, the top three control zones receiving lost opportunity cost credits, ATSI, AP and ComEd combined for 70.3 percent of all lost opportunity cost credits, 54.0 percent of all the day-ahead generation from pool-scheduled combustion turbines and diesels, 73.4 percent of all day-ahead generation not called in real time by PJM from those unit types and 82.0 percent of all day-ahead generation not called in real time by PJM and receiving lost opportunity cost credits from those unit types.
- **Lost Opportunity Cost Calculation:** In the first three months of 2013, lost opportunity cost credits would have been reduced by \$6.7 million, or 34.0 percent, if all changes proposed by the MMU had been implemented.
- **Black Start Service Units:** Certain units located in the AEP zone are relied on for their black start capability on a regular basis even during periods when the units are not economic. The relevant black start units provide black start service under the ALR option, which means that the units must be running even if not economic. In the first three months of 2013, the cost of the noneconomic operation of ALR units in the AEP control zone was \$22.2 million.
- **Con Edison – PSEG Wheeling Contracts Support:** Certain units located near the boundary between New Jersey and New York City have been operated to support the wheeling contracts between Con-Ed and PSEG. These units are often run out of merit and received substantial balancing operating reserves credits.
- **Up-to Congestion Transactions:** Up-to congestion transactions do not pay operating reserve charges despite that they affect dispatch and

commitment in the Day-Ahead Energy Market. The impact of assigning operating reserve charges to up-to congestion transactions on the payments by other participants would be significant. For example, in the first three months of 2013, the RTO deviation rate would have been reduced by 74.7 percent if up-to congestion transactions had been included in the calculation of operating reserve charges.

## Conclusion

Day-ahead and real-time operating reserve credits are paid to market participants under specified conditions in order to ensure that resources are not required to operate for the PJM system at a loss. Sometimes referred to as uplift or make whole, these payments are intended to be one of the incentives to generation owners to offer their energy to the PJM Energy Market at marginal cost and to operate their units at the direction of PJM dispatchers. These credits are paid by PJM market participants as operating reserve charges.

From the perspective of those participants paying operating reserve charges, these costs are an unpredictable and unhedgeable component of the total cost of energy in PJM. While reasonable operating reserve charges are an appropriate part of the cost of energy, market efficiency would be improved by ensuring that the level and variability of operating reserve charges is as low as possible consistent with the reliable operation of the system and that the allocation of operating reserve charges reflects the reasons that the costs are incurred.

The goal should be to reflect the impact of physical constraints in market prices to the maximum extent possible and thus to reduce the necessity for out of market operating reserve payments. When units receive substantial revenues through operating reserve payments, these payments are not transparent to the market and other market participants do not have the opportunity to compete for them. As a result, substantial operating reserve payments to a concentrated group of units and organizations persists.

The level of operating reserve credits paid to specific units depends on the level of the unit's energy offer, the unit's operating parameters, the details of the rules which define payments and the decisions of PJM operators. Operating reserve credits result in part from decisions by PJM operators, who follow reliability requirements and market rules, to start units or to keep units operating even when hourly LMP is less than the offer price including energy, no load and startup costs. But these costs are collected as operating reserves rather than reflected in price as a result of the rules governing the determination of LMP in situations where something other than a simple thermal transmission constraint affects unit dispatch.

PJM has improved its oversight of operating reserves and continues to review and measure daily operating reserve performance, to analyze issues and resolve them in a timely manner, to make better information more readily available to dispatchers and to emphasize the impact of dispatcher decisions on operating reserve charge levels. However, given the impact of operating reserve charges on market participants, particularly virtual market participants, the MMU recommends that PJM take another step towards more precise definition and clearly identify and classify all reasons for incurring operating reserve charges in order to ensure a long term solution of the allocation issue of the costs of operating reserves. The MMU recommends that the goal should be to have dispatcher decisions reflected in transparent market outcomes, preferably LMP, to the maximum extent possible and to minimize the level and rate of operating reserve charges.

The MMU recommended and supports PJM in the reexamination of the allocation of operating reserve charges to participants to ensure that such charges are paid by all whose market actions result in the incurrence of such charges.<sup>2</sup> For example, there has not been an analysis of the impact of up-to congestion transactions and their impact on the payment of operating reserve credits. Up-to congestion transactions continue to pay no operating reserve charges, which means that all others who pay operating reserve charges are

paying too much. In addition, the issue of netting using internal bilateral transactions should be addressed.

Overall, the MMU recommends that the goal be to minimize the total level of operating reserve credits paid and to ensure that the associated charges are paid by all those whose market actions result in the incurrence of such charges. The goal should be to minimize the total incurred operating reserve charges and to increase the transactions over which those charges are spread in order to reduce the impact of operating reserve charges on markets. The result would be to reduce the level of per MWh charges, to reduce the uncertainty associated with operating reserve charges and to reduce the impact of operating reserve charges on decisions about how and when to participate in PJM markets.

## New Operating Reserve Categories

New rules regarding the allocation method for operating reserve make whole payments for reliability purposes became effective on December 1, 2012.<sup>3</sup> The new rules allocate the day-ahead operating reserve charges for units scheduled in day ahead or committed in real time to provide black start services consistently with Schedule 6A of the tariff.<sup>4</sup> The new rules also allocate the day-ahead operating reserve charges for units scheduled in day-ahead to provide reactive services or transfer interface control zonally, in proportion to the real-time deliveries of energy to load.

## Black Start Services

Black start services credits are paid in the form of day-ahead operating reserve credits or balancing operating reserve credits depending on whether the unit was scheduled in day ahead or committed in real time to provide black start service. These credits consist of make whole payments to units capable of providing black start services.<sup>5</sup>

The black start services charges that result from paying day-ahead and balancing operating reserve credits to units providing black start services

<sup>2</sup> PJM presented a problem statement at the Markets and Reliability Committee (MRC) to perform a holistic review of operating reserves. See "Item 10 - Operating Reserves Problem Statement" for PJM's MRC April 25, 2013 meeting, <<http://www.pjm.com/~media/committees-groups/committees/mrc/20130425/20130425-item-10-operating-reserves-problem-statement.ashx>> (Accessed April 26, 2013).

<sup>3</sup> See PJM Interconnection, LLC, Docket No. ER13-481-000 (November 30, 2012).

<sup>4</sup> Schedule 6A of the OATT contains the rules governing black start service.

<sup>5</sup> Day-ahead and balancing operating reserve credits paid to units providing black start services or performing black start testing are categorized as day-ahead or balancing black start services credits in this report.

or performing black start testing are allocated monthly to PJM members in proportion to their zone and non-zone peak transmission use.<sup>6,7</sup>

## Reactive Services

Reactive service credits are paid to units committed in real time for the purpose of maintaining the reactive reliability of the PJM region. Units are paid reactive services credits if such units are reduced or suspended at the request of PJM and the LMP at the unit’s bus is higher than its offered price or if their output is increased at the request of PJM for the purpose of reactive services and the offered price is higher than the LMP at the unit’s bus. Synchronous condensers may also receive reactive service credits by providing synchronous condensing for the purpose of maintaining reactive reliability at the request of PJM.

Reactive services credits are also paid in the form of day-ahead operating reserve credits to units scheduled in day ahead to provide reactive services in real time. These credits consist of make whole payments to units scheduled in day ahead to maintain the reactive reliability in real time.<sup>8</sup>

The costs of units committed in real time and scheduled in day ahead to maintain the reactive reliability of the PJM region are allocated as reactive services charges. Reactive service charges are allocated daily to real-time load in the transmission zone or zones where the reactive service was provided.<sup>9</sup>

## Credits and Charges Categories

Operating reserves include day-ahead and balancing operating reserves, reactive services, synchronous condensing and black start services categories. Total operating reserve credits paid to PJM participants equal the total operating reserve charges paid by PJM participants. Table 3-1 and Table 3-2 show the categories of credits and charges and their relationship. These tables show how the charges are allocated.

6 Prior December 1, 2012 the costs of units providing black start services and performing black start testing were allocated as day-ahead or balancing operating reserve charges.  
 7 See OATT Schedule 6A § for the definition of zone and non-zone peak transmission use.  
 8 Day-ahead operating reserve credits paid to units scheduled to provide reactive services are categorized as day-ahead reactive services credits in this report.  
 9 After September 13, 2012 and prior to December 1, 2012 the costs of units scheduled in day ahead to provide reactive services were allocated as day-ahead operating reserve charges.

**Table 3-1 Day-ahead and balancing operating reserve credits and charges**

Credits received for:	Credits category:		Charges category:	Charges paid by:
<b>Day-Ahead</b>				
Day-Ahead Import Transactions and Generation Resources	Day-Ahead Operating Reserve Transaction Day-Ahead Operating Reserve Generator	→	Day-Ahead Operating Reserve	Day-Ahead Load Day-Ahead Export Transactions Decrement Bids in RTO Region
Load Response Resources	Day-Ahead Operating Reserves for Load Response	→	Day-Ahead Operating Reserve for Load Response	Day-Ahead Load Day-Ahead Export Transactions Decrement Bids in RTO Region
Unallocated Negative Load Unallocated Positive Generation	Congestion Charges Congestion Credits	→	Unallocated Congestion	Day-Ahead Load Day-Ahead Export Transactions Decrement Bids in RTO Region
<b>Balancing</b>				
Generation Resources	Balancing Operating Reserve Generator	→	Balancing Operating Reserve for Reliability Balancing Operating Reserve for Deviations Balancing Local Constraint	Real-Time Load plus Export Transactions Real-Time Deviations from Day-Ahead Schedule Applicable Requesting Party in RTO, Eastern or Western Region
Canceled Resources	Balancing Operating Reserve Startup Cancellation			
Lost Opportunity Cost (LOC)	Balancing Operating Reserve LOC	→	Balancing Operating Reserve for Deviations	Real-Time Deviations from Day-Ahead Schedule in RTO Region
Real-Time Import Transactions Resources Providing Quick Start Reserve	Balancing Operating Reserve Transaction Balancing Operating Reserve Generator			
Load Response Resources	Balancing Operating Reserves for Load Response	→	Balancing Operating Reserve for Load Response	Real-Time Deviations from Day-Ahead Schedule by RTO, Eastern or Western Region in RTO, Eastern or Western Region

**Table 3-2 Reactive services, synchronous condensing and black start services credits and charges**

Credits received for:	Credits category:		Charges category:	Charges paid by:
		<u>Reactive</u>		
Resources Providing Reactive Service	Reactive Services Generator		Reactive Services Charge	Zonal Real-Time Load
	Reactive Services LOC	→		
	Reactive Services Condensing		Reactive Services Local Constraint	Applicable Requesting Party
	Reactive Services Synchronous Condensing LOC			
		<u>Synchronous Condensing</u>		
Resources Providing Synchronous Condensing	Synchronous Condensing Synchronous Condensing LOC	→	Synchronous Condensing	Real-Time Load Real-Time Export Transactions
		<u>Black Start</u>		
Resources Providing Black Start Service	Day-Ahead Operating Reserve Balancing Operating Reserve Black Start Testing	→	Black Start Service Charge	Zone and Non-zone Peak Transmission Use

Total operating reserve charges in the first three months of 2013 were \$260.2 million, up from the total of \$122.8 million in the first three months of 2012. Table 3-4 compares monthly operating reserve charges by category for 2012 and 2013. The increase of 111.8 percent in the first three months of 2013 is comprised of a 29.6 percent increase in day-ahead operating reserve charges, a 94.0 percent increase in balancing operating reserve charges, a 144.0 percent increase in reactive services charges, a 96.0 percent decrease in synchronous condensing charges and \$22.2 million of the new black start services charges.

## Operating Reserve Results

### Operating Reserve Charges

Table 3-3 shows total operating reserve charges for the first three months of 2012 and 2013.<sup>10</sup> Total operating reserve charges increased by 111.8 percent in the first three months of 2013 compared to the first three months of 2012, to a total of \$260.2 million.

**Table 3-3 Total operating reserve charges: January through March 2012 and 2013**

	Jan – Mar 2012	Jan – Mar 2013	Change	Percentage Change
Total Operating Reserve Charges	\$122,821,626	\$260,154,623	\$137,332,997	111.8%
Operating Reserve as a Percent of Total PJM Billing	1.8%	3.4%	1.6%	89.3%

<sup>10</sup> Table 3-3 includes all categories of charges as defined in Table 3-1 and Table 3-2 and includes all PJM Settlements billing adjustments. Billing data can be modified by PJM Settlements at any time to reflect changes in the evaluation of operating reserves. The billing data reflected in this report were current on April 9, 2013.

Table 3-4 Monthly operating reserve charges: 2012 and 2013

	2012						2013					
	Day-Ahead	Balancing	Reactive Services	Synchronous Condensing	Black Start	Total	Day-Ahead	Balancing	Reactive Services	Synchronous Condensing	Black Start Services	Total
Jan	\$8,311,574	\$27,341,331	\$2,934,337	\$27,037	\$0	\$38,614,279	\$11,161,579	\$77,529,804	\$23,604,234	\$1,873	\$8,453,397	\$120,750,888
Feb	\$5,858,308	\$24,877,526	\$13,108,017	\$18,592	\$0	\$43,862,444	\$5,194,848	\$65,384,968	\$17,615,286	\$0	\$6,988,632	\$95,183,734
Mar	\$3,852,873	\$29,758,387	\$6,731,994	\$1,648	\$0	\$40,344,903	\$7,004,925	\$16,096,320	\$14,350,138	\$0	\$6,768,618	\$44,220,001
Apr	\$2,967,302	\$34,168,703	\$4,521,280	\$0	\$0	\$41,657,285						
May	\$7,956,965	\$43,761,595	\$5,392,428	\$0	\$0	\$57,110,987						
Jun	\$6,973,548	\$45,706,882	\$5,133,009	\$0	\$0	\$57,813,439						
Jul	\$11,773,179	\$66,592,698	\$2,960,922	\$0	\$0	\$81,326,799						
Aug	\$8,692,702	\$47,664,948	\$4,112,186	\$0	\$0	\$60,469,836						
Sep	\$28,877,736	\$32,811,313	\$4,458,891	\$24,366	\$0	\$66,172,306						
Oct	\$23,382,961	\$26,515,214	\$1,253,642	\$38,762	\$0	\$51,190,579						
Nov	\$18,077,440	\$24,438,035	\$120,820	\$0	\$0	\$42,636,296						
Dec	\$7,878,203	\$27,722,687	\$25,282,650	\$37,845	\$8,384,651	\$69,306,036						
Total	\$18,022,755	\$81,977,245	\$22,774,348	\$47,278	\$0	\$122,821,626	\$23,361,353	\$159,011,092	\$55,569,658	\$1,873	\$22,210,646	\$260,154,623
Share of Charges	14.7%	66.7%	18.5%	0.0%	0.0%	100.0%	9.0%	61.1%	21.4%	0.0%	8.5%	100.0%

Table 3-5 shows the composition of the day-ahead operating reserve charges. Day-ahead operating reserve charges consist of day-ahead operating reserve charges attributable to generators and import transactions, day-ahead operating reserve charges for load response and unallocated congestion charges. Day-ahead operating reserve charges increased 29.6 percent or \$5.3 million in the first three months of 2013 compared to the first three months of 2012 as a result of unallocated congestion charges.<sup>11</sup>

Table 3-5 Day-ahead operating reserve charges: January through March 2012 and 2013

Type	Jan - Mar 2012	Jan - Mar 2013	Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Day-Ahead Operating Reserve Charges	\$18,022,755	\$17,425,457	(\$597,298)	100.0%	74.6%
Day-Ahead Operating Reserve Charges for Load Response	\$0	\$0	\$0	0.0%	0.0%
Unallocated Congestion Charges	\$0	\$5,935,896	\$5,935,896	0.0%	25.4%
Total	\$18,022,755	\$23,361,353	\$5,338,598	100.0%	100.0%

Table 3-6 shows the composition of the balancing operating reserve charges. Balancing operating reserve charges consist of balancing operating reserve reliability charges (attributable to generators), balancing operating reserve deviation charges (attributable to generators and import transactions), balancing operating reserve charges for load response and balancing local constraint charges. In the first three months of 2013, balancing operating reserve deviation charges accounted for 88.5 percent of all balancing operating reserve charges, 18.6 percentage points higher compared to the share in the first three months of 2012.

<sup>11</sup> See OATT Attachment K - Appendix 5 3.2.3B (c). Unallocated congestion charges are added to the total costs of day-ahead operating reserves. Congestion charges have been allocated to day-ahead operating reserves seven times, totaling \$12.9 million, 46.0 percent was charged in the first three months of 2013.

**Table 3-6 Balancing operating reserve charges: January through March 2012 and 2013**

Type	Jan - Mar 2012	Jan - Mar 2013	Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Balancing Operating Reserve Reliability Charges	\$22,377,438	\$18,259,050	(\$4,118,388)	27.3%	11.5%
Balancing Operating Reserve Deviation Charges	\$57,239,792	\$140,671,606	\$83,431,815	69.8%	88.5%
Balancing Operating Reserve Charges for Load Response	\$83,009	\$873	(\$82,136)	0.1%	0.0%
Balancing Local Constraint Charges	\$2,277,006	\$79,563	(\$2,197,443)	2.8%	0.1%
Total	\$81,977,245	\$159,011,092	\$77,033,847	100.0%	100.0%

Table 3-7 shows the composition of the balancing operating reserve deviation charges. Balancing operating reserve charges consist of charges attributable to make whole payments to generators and import transactions, energy lost opportunity costs paid to generators and payments to resources canceled by PJM before coming online. In the first three months of 2013, 86.0 percent of all balancing operating reserve deviation charges were attributable to make whole payments to generators and import transactions, an increase of 26.7 percentage points compared to the share in the first three months of 2012.

**Table 3-7 Balancing operating reserve deviation charges: January through March 2012 and 2013**

Charge attributable to	Jan - Mar 2012	Jan - Mar 2013	Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Make Whole Payments to Generators and Imports	\$33,952,809	\$121,000,359	\$87,047,550	59.3%	86.0%
Energy Lost Opportunity Cost	\$20,871,023	\$19,664,029	(\$1,206,994)	36.5%	14.0%
Canceled Resources	\$2,415,960	\$7,218	(\$2,408,742)	4.2%	0.0%
Total	\$57,239,792	\$140,671,606	\$83,431,815	100.0%	100.0%

Table 3-8 shows reactive services, synchronous condensing and black start services charges. Black start services charges were introduced in December 2012.

**Table 3-8 Additional operating reserve charges: January through March 2012 and 2013**

Type	Jan - Mar 2012	Jan - Mar 2013	Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Reactive Services Charges	\$22,774,348	\$55,569,658	\$32,795,310	99.8%	71.4%
Synchronous Condensing Charges	\$47,278	\$1,873	(\$45,405)	0.2%	0.0%
Black Start Services Charges	\$0	\$22,210,646	\$22,210,646	0.0%	28.6%
Total	\$22,821,626	\$77,782,178	\$54,960,552	100.0%	100.0%

Table 3-9 and Table 3-10 show the amount and percentages of regional balancing charges allocation for the first three months of 2012 and 2013. Regional balancing operating reserve charges consist of the balancing operating reserve reliability and deviation charges. These charges are allocated regionally across PJM. The largest share of regional charges was paid by demand deviations in the RTO region. The regional balancing charges allocation table does not include charges attributed for resources controlling local constraints and resources providing quick start reserve.

In the first three months of 2013, regional balancing operating reserve charges increased by \$79.3 million compared to the first three months of 2012. Balancing operating reserve reliability charges decreased by \$4.1 million or 18.4 percent and balancing reserve deviation charges increased by \$83.4 million or 145.8 percent. In the first three months of 2013, deviation charges in the Eastern Region increased by \$84.3 million compared to the first three months of 2012, as a result of payments to units providing relief to transmission constraints in north/central New Jersey and

units providing support to the Con Edison – PSEG wheeling contracts.<sup>12,13</sup> The remaining two deviation categories decreased by \$0.8 million.

**Table 3-9 Regional balancing charges allocation: January through March 2012**

Charge	Allocation	RTO		East		West		Total	
Reliability Charges	Real-Time Load	\$4,009,931	5.0%	\$88,579	0.1%	\$17,552,181	22.0%	\$21,650,691	27.2%
	Real-Time Exports	\$112,694	0.1%	\$2,265	0.0%	\$611,789	0.8%	\$726,747	0.9%
	Total	\$4,122,625	5.2%	\$90,844	0.1%	\$18,163,969	22.8%	\$22,377,438	28.1%
Deviation Charges	Demand	\$28,091,145	35.3%	\$3,620,506	4.5%	\$437,614	0.5%	\$32,149,265	40.4%
	Supply	\$11,306,326	14.2%	\$1,347,463	1.7%	\$172,663	0.2%	\$12,826,452	16.1%
	Generator	\$10,955,500	13.8%	\$993,479	1.2%	\$315,096	0.4%	\$12,264,075	15.4%
	Total	\$50,352,971	63.2%	\$5,961,448	7.5%	\$925,373	1.2%	\$57,239,792	71.9%
Total Regional Balancing Charges		\$54,475,597	68.4%	\$6,052,291	7.6%	\$19,089,342	24.0%	\$79,617,230	100%

**Table 3-10 Regional balancing charges allocation: January through March 2013**

Charge	Allocation	RTO		East		West		Total	
Reliability Charges	Real-Time Load	\$11,428,991	7.2%	\$6,088,461	3.8%	\$323,720	0.2%	\$17,841,173	11.2%
	Real-Time Exports	\$239,751	0.2%	\$172,908	0.1%	\$5,218	0.0%	\$417,878	0.3%
	Total	\$11,668,742	7.3%	\$6,261,369	3.9%	\$328,938	0.2%	\$18,259,050	11.5%
Deviation Charges	Demand	\$29,184,458	18.4%	\$55,939,858	35.2%	\$425,579	0.3%	\$85,549,895	53.8%
	Supply	\$8,036,881	5.1%	\$15,291,042	9.6%	\$107,606	0.1%	\$23,435,529	14.7%
	Generator	\$12,511,542	7.9%	\$18,922,713	11.9%	\$251,927	0.2%	\$31,686,182	19.9%
	Total	\$49,732,882	31.3%	\$90,153,613	56.7%	\$785,112	0.5%	\$140,671,606	88.5%
Total Regional Balancing Charges		\$61,401,624	38.6%	\$96,414,982	60.7%	\$1,114,050	0.7%	\$158,930,657	100%

## Operating Reserve Rates

Under the operating reserves cost allocation rules, PJM calculates nine separate rates, a day-ahead operating reserve rate, a reliability rate for each region, a deviation rate for each region, a lost opportunity cost rate and a canceled resources rate for the entire RTO region. See Table 3-1 for how these charges are allocated.<sup>14</sup>

<sup>12</sup> See "Selected MMU Market Issues," MMU Presentation to the Members Committee (February 25, 2013) <http://www.pjm.com/~media/committees-groups/committees/mc/20130225-webinar/20130225-item-08-imm-flowchart.ashx>.

<sup>13</sup> See "Winter 2012-2013: Balancing Operating Reserve Rates," PJM Presentation at the Market Implementation Committee (MIC) (March 6, 2013) <http://www.pjm.com/~media/committees-groups/committees/mic/20130306/20130306-item-10-winter-2012-2013-bor-rates.ashx>.

<sup>14</sup> The lost opportunity cost and canceled resources rates are not posted separately by PJM. PJM adds the lost opportunity cost rates and the canceled resources rate to the deviation rate for the RTO region since these three charges are allocated following the same rules.

Figure 3-1 shows the weekly weighted average day-ahead operating reserve rate for 2012 and the first three months of 2013. The average rate in the first three months of 2013 was \$0.082 per MWh, \$0.005 per MWh lower than the average in the first three months of 2012. The highest rate occurred on March 24, when the rate reached \$0.218 per MWh, 0.3 percent higher than the \$0.217 per MWh reached during the first three months of 2012, on February 1. On September 13, 2012, PJM increased the amount of generation scheduled in the Day-Ahead Energy Market for reliability purposes. This change shifted the allocation operating reserve charges from the Real-Time Energy Market to the Day-Ahead Energy Market.<sup>15</sup>

Figure 3-1 also shows the weekly weighted average day-ahead operating reserve rates including the congestion charges allocated to day-ahead operating reserves. The average rate in the first three months of 2013, including unallocated congestion charges, was \$0.114 per MWh, 38.3 percent higher than the day-ahead operating reserve rate without unallocated congestion charges. The highest day-ahead operating rate including unallocated congestion charges occurred on January 18, when the rate reached \$0.283 per MWh, 29.7 percent higher than the highest day-ahead operating reserve rates without unallocated congestion charges.

<sup>15</sup> See *2012 State of the Market Report for PJM*, Volume II, Section 3, "Operating Reserve" at "Day-Ahead Unit Commitment for Reliability" for further details on the September 13 day-ahead scheduling process change.

**Figure 3-1 Weekly weighted average day-ahead operating reserve rate (\$/MWh): 2012 and 2013**

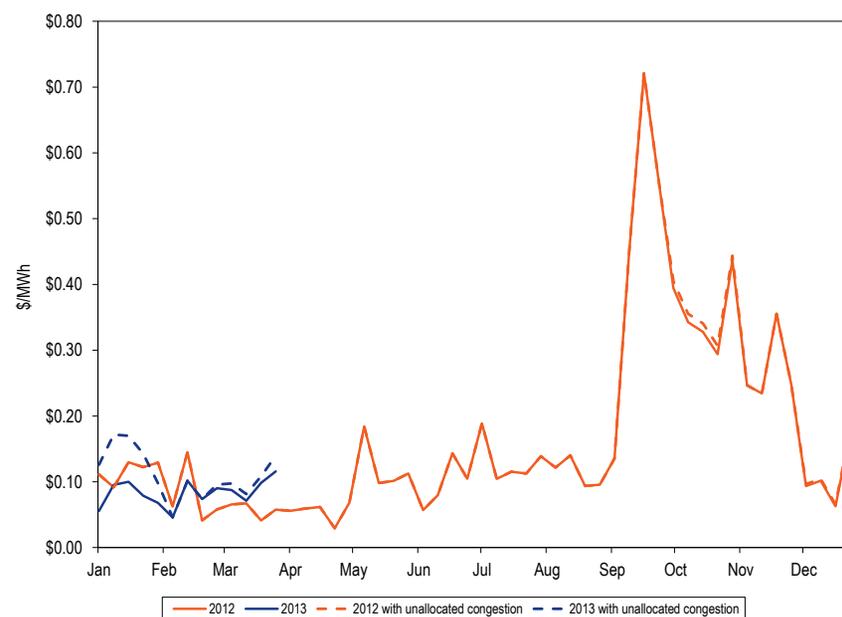


Figure 3-2 shows the RTO and the regional reliability rates for 2012 and the first three months of 2013. The average daily RTO reliability rate was \$0.058 per MWh. The highest RTO reliability rate of the first three months of 2013 occurred on January 23, when the rate reached \$0.802 per MWh. The average daily Eastern Region reliability rate was \$0.065 per MWh. The highest Eastern Region reliability rate of the first three months of 2013 occurred on January 23, when the rate reached \$2.887 per MWh. The spikes on both rates was a result of a combination of transmission constraints in central and northeastern New Jersey and high natural gas prices in the area. The transmission constraints were the result of issues with the 500 kV system in the area which resulted in overloads of the 230 kV system. The issues on the 500 kV system were a combination of unplanned outages and unforeseen outages resulting from damage due to Hurricane Sandy. Cold weather in the region resulted in an increase in the Transco Zone 6 NY natural gas price index in January and

February 2013 compared to previous months and compared to January and February 2012. The units committed to provide relief for the transmission constraints only set the LMP during short periods of time in comparison to their run times, which increased the costs of operating reserves during periods when the units continue operating out of merit as a result of their operating parameters.<sup>16</sup>

**Figure 3-2 Daily balancing operating reserve reliability rates (\$/MWh): 2012 and 2013**

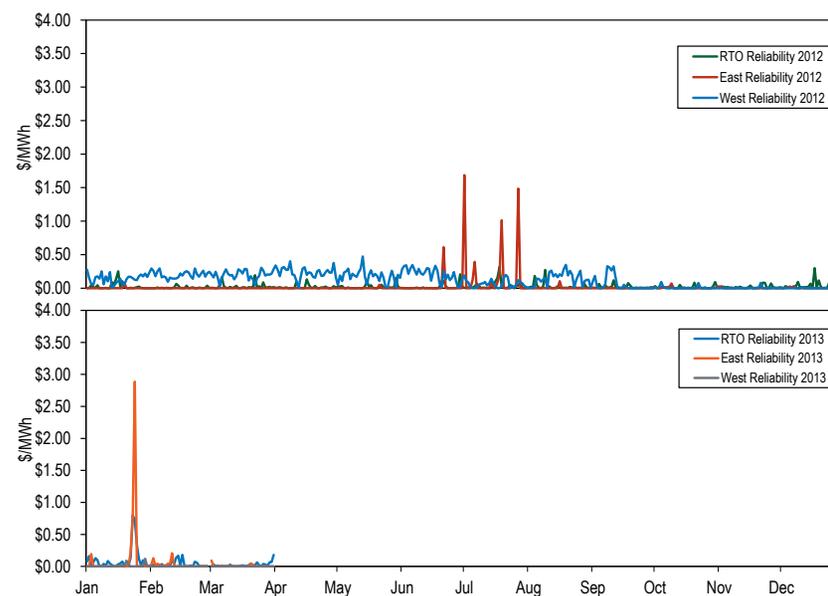
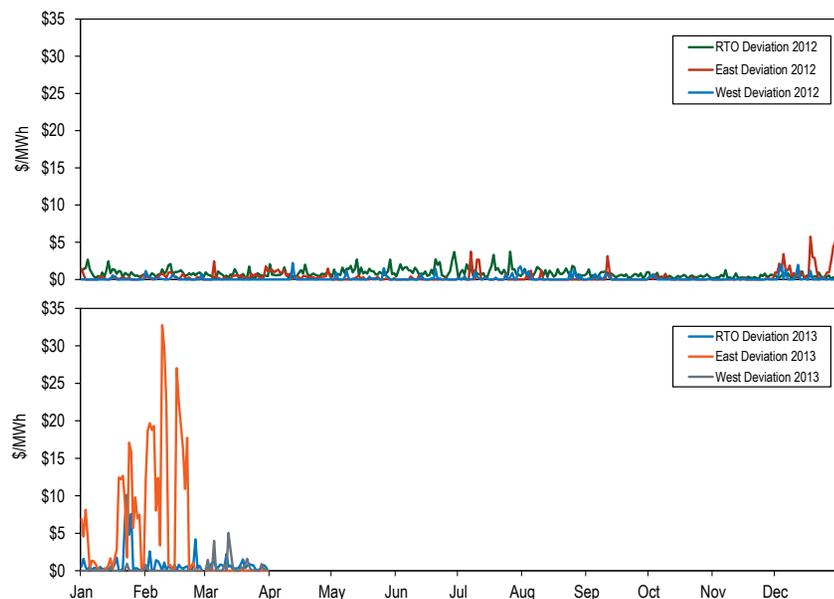


Figure 3-3 shows the RTO and the regional deviation rates for 2012 and the first three months of 2013. The average daily RTO deviation rate was \$1.001 per MWh. The highest daily rate in the first three months of 2013 occurred on January 23, when the RTO deviation rate reached \$10.155 per MWh. Between January 1 and February 21, 2013, the Eastern Region deviation rate averaged \$10.045 per MWh, reaching its highest rate on February 9, when it reached

<sup>16</sup> The relevant parameters are minimum run time, minimum down time, maximum daily starts and maximum weekly starts.

\$32.767 per MWh, prior to the 2012 – 2013 winter, the highest Eastern Region deviation rate had been \$5.739 per MWh. The spikes in the Eastern deviation rate in early January and from mid-January until the end of February were caused by the same issues that caused the RTO and Eastern reliability rates to spike on January 25, a combination of transmission constraints in central and northeastern New Jersey and high natural gas prices in the area. Current balancing operating reserve rules allocate the costs of operating reserves in real time for reliability or deviations according to when the units are committed (before or during the operating day) and the number of intervals the units were operating noneconomic (more or less than four intervals).<sup>17</sup>

**Figure 3-3 Daily balancing operating reserve deviation rates (\$/MWh): 2012 and 2013**



<sup>17</sup> See the 2012 State of the Market Report for PJM, Volume II, Section 3, "Operating Reserve" at "Balancing Operating Reserve Cost Allocation" p.101 for a more detailed description of how the cost of balancing operating reserves are allocated

Figure 3-4 shows the daily lost opportunity cost rate and the daily canceled resources rate for 2012 and the first three months of 2013. The lost opportunity rate averaged \$0.655 per MWh. The highest lost opportunity cost rate occurred on January 25, when it reached \$4.805 per MWh.

**Figure 3-4 Daily lost opportunity cost and canceled resources rates (\$/MWh): 2012 and 2013**

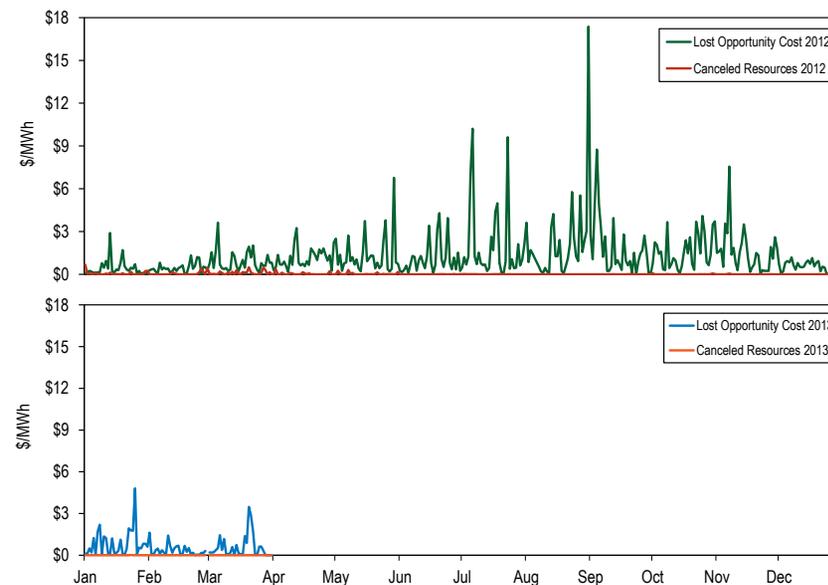


Table 3-11 shows the average rates for each region in each category for the first three months of 2012 and 2013.

**Table 3-11 Operating reserve rates (\$/MWh): January through March 2012 and 2013**

Rate	Jan - Mar 2012 (\$/MWh)	Jan - Mar 2013 (\$/MWh)	Difference (\$/MWh)	Percentage Difference
Day-Ahead	0.088	0.082	(0.005)	(6.2%)
Day-Ahead with Unallocated Congestion	0.088	0.114	0.026	29.6%
RTO Reliability	0.021	0.058	0.037	172.8%
East Reliability	0.001	0.065	0.064	6,408.4%
West Reliability	0.176	0.003	(0.172)	(98.2%)
RTO Deviation	0.782	1.001	0.220	28.1%
East Deviation	0.305	5.967	5.661	1,854.1%
West Deviation	0.062	0.055	(0.006)	(10.5%)
Lost Opportunity Cost	0.603	0.655	0.052	8.7%
Canceled Resources	0.070	0.000	(0.070)	(99.7%)

Table 3-12 shows the operating reserve cost of a 1 MW transaction during the first three months of 2013. For example, a decrement bid in the Eastern Region (if not offset by other transactions) paid an average rate of \$6.926 per MWh with a maximum rate of \$32.879 per MWh, a minimum rate of \$0.231 per MWh and a standard deviation of \$8.324 per MWh. The rates in the table include all operating reserve charges including RTO deviation charges and unallocated congestion charges. Table 3-12 illustrates both the average level of operating reserve charges to transaction types but also the uncertainty reflected in the maximum, minimum and standard deviation levels.

**Table 3-12 Operating reserve rates statistics (\$/MWh): January through March 2013**

Region	Transaction	Rates Charged (\$/MWh)			Standard Deviation
		Maximum	Average	Minimum	
East	INC	32.847	6.815	0.024	8.344
	DEC	32.879	6.926	0.231	8.324
	DA Load	0.283	0.112	0.000	0.061
	RT Load	3.610	0.108	0.000	0.412
	Deviation	32.847	6.815	0.024	8.344
West	INC	12.913	1.524	0.024	2.156
	DEC	12.989	1.636	0.113	2.161
	DA Load	0.283	0.112	0.000	0.061
	RT Load	0.802	0.057	0.000	0.121
	Deviation	12.913	1.524	0.024	2.156

## Operating Reserve Determinants

Table 3-13 shows the determinants used to allocate the regional balancing operating reserve charges for the first three months of 2012 and 2013. Total real-time load and real-time exports were 7,329,735 MWh or 3.8 percent higher in the first three months of 2013 compared to the first three months of 2012. Total deviations summed across the demand, supply, and generator categories were lower in the first three months of 2013 compared to the first three months of 2012 by 4,601,051 MWh or 13.3 percent.

**Table 3-13 Balancing operating reserve determinants (MWh): January through March 2012 and 2013**

		Reliability Charge Determinants			Deviation Charge Determinants			
		Real-Time Load (MWh)	Real-Time Exports (MWh)	Reliability Total	Demand Deviations (MWh)	Supply Deviations (MWh)	Generator Deviations (MWh)	Deviations Total
Jan - Mar 2012	RTO	188,414,264	6,264,235	194,678,500	19,277,166	7,653,318	7,692,007	34,622,491
	East	88,335,848	2,908,479	91,244,327	11,852,025	4,441,592	3,231,124	19,524,742
	West	100,078,417	3,355,756	103,434,173	7,341,579	3,193,440	4,460,883	14,995,902
Jan - Mar 2013	RTO	197,195,752	4,812,483	202,008,234	17,995,824	4,418,797	7,606,819	30,021,440
	East	93,547,149	3,081,730	96,628,879	9,724,224	2,248,085	3,137,498	15,109,806
	West	103,648,603	1,730,753	105,379,356	7,714,724	2,031,099	4,469,321	14,215,144
Difference	RTO	8,781,487	(1,451,753)	7,329,735	(1,281,342)	(3,234,521)	(85,189)	(4,601,051)
	East	5,211,301	173,250	5,384,552	(2,127,801)	(2,193,508)	(93,627)	(4,414,936)
	West	3,570,186	(1,625,003)	1,945,183	373,145	(1,162,341)	8,438	(780,758)

Deviations fall into three categories, demand, supply and generator deviations. Table 3-14 shows the different categories by the type of transactions that incur deviations. For example, 38.0 percent of all RTO deviations in the first three months of 2013 were from participants that only had load transactions. In the first three months of 2013, 19.5 percent of all RTO deviations were incurred by participants that deviated due to INCs and DECs or due to combinations of INCs and DECs with other transactions, the remaining 80.5 percent of all RTO deviations were incurred by participants that deviated due to other transaction types or due to combinations of other transaction types.

**Table 3-14 Deviations by transaction type: January through March 2013**

Deviation Category	Transaction	Deviation (MWh)			Share		
		RTO	East	West	RTO	East	West
Demand	Bilateral Sales Only	267,701	89,911	177,790	0.9%	0.6%	1.3%
	DECs Only	2,183,908	848,032	779,000	7.3%	5.6%	5.5%
	Exports Only	1,204,248	739,625	464,623	4.0%	4.9%	3.3%
	Load Only	11,407,941	6,851,590	4,556,351	38.0%	45.3%	32.1%
	Combination with DECs	1,547,221	836,033	711,187	5.2%	5.5%	5.0%
	Combination without DECs	1,384,806	359,033	1,025,773	4.6%	2.4%	7.2%
Supply	Bilateral Purchases Only	399,789	317,910	81,879	1.3%	2.1%	0.6%
	Imports Only	1,861,799	906,891	954,908	6.2%	6.0%	6.7%
	INCs Only	1,254,580	392,555	722,411	4.2%	2.6%	5.1%
	Combination with INCs	882,997	613,344	269,653	2.9%	4.1%	1.9%
	Combination without INCs	19,632	17,385	2,247	0.1%	0.1%	0.0%
Generators		7,606,819	3,137,498	4,469,321	25.3%	20.8%	31.4%
Total		30,021,440	15,109,806	14,215,144	100.0%	100.0%	100.0%

## Operating Reserve Credits

Table 3-15 shows the totals for each credit category for the first three months of 2012 and 2013. During the first three months of 2013, 62.5 percent of total operating reserve credits were in the balancing category. This percentage decreased 4.2 percentage points from the 66.7 percent in the first three months of 2012.

and supporting the Con Edison – PSEG wheeling contracts during days with high natural gas prices. In the first three months of 2013, 43.9 percent of all operating reserve credits paid to units were paid to combined cycle units, 22.7 percentage points more than the share in the first three months of 2012.

**Table 3-15 Credits by operating reserve category: January through March 2012 and 2013**

Category	Type	Jan - Mar 2012	Jan - Mar 2013	Change	Percentage Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Day-Ahead	Generators	\$18,022,535	\$17,425,457	(\$597,077)	(3.3%)	14.7%	6.9%
	Imports	\$220	\$0	(\$220)	(100.0%)	0.0%	0.0%
	Load Response	\$0	\$0	\$0	NA	0.0%	0.0%
Balancing	Canceled Resources	\$2,415,961	\$7,218	(\$2,408,743)	(99.7%)	2.0%	0.0%
	Generators	\$56,298,453	\$139,225,870	\$82,927,417	147.3%	45.8%	54.8%
	Imports	\$31,794	\$33,538	\$1,745	5.5%	0.0%	0.0%
	Load Response	\$83,009	\$853	(\$82,157)	(99.0%)	0.1%	0.0%
	Local Constraints Control	\$2,277,006	\$79,563	(\$2,197,443)	(96.5%)	1.9%	0.0%
	Lost Opportunity Cost	\$20,871,023	\$19,664,029	(\$1,206,994)	(5.8%)	17.0%	7.7%
Reactive Services	Day-Ahead	\$0	\$48,309,209	\$48,309,209	NA	0.0%	19.0%
	Local Constraints Control	\$0	\$0	\$0	NA	0.0%	0.0%
	Lost Opportunity Cost	\$706,638	\$105,781	(\$600,856)	(85.0%)	0.6%	0.0%
	Reactive Services	\$21,985,676	\$7,164,366	(\$14,821,311)	(67.4%)	17.9%	2.8%
Synchronous Condensing	Synchronous Condensing	\$82,034	\$0	(\$82,034)	(100.0%)	0.1%	0.0%
	Day-Ahead	\$47,278	\$1,873	(\$45,404)	(96.0%)	0.0%	0.0%
Black Start Services	Day-Ahead	\$0	\$21,663,650	\$21,663,650	NA	0.0%	8.5%
	Balancing	\$0	\$528,536	\$528,536	NA	0.0%	0.2%
	Testing	\$0	\$18,460	\$18,460	NA	0.0%	0.0%
<b>Total</b>		<b>\$122,821,626</b>	<b>\$254,228,403</b>	<b>\$131,406,777</b>	<b>107.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Characteristics of Credits

### Types of Units

Table 3-16 shows the distribution of total operating reserve credits by unit type for the first three months of 2012 and 2013. Credits paid to all unit types using fossil fuels increased in the first three months of 2013 compared to the first three months of 2012. Combined cycle units increased 329.6 percent or \$85.7 million, mainly due to units providing relief for transmission constraints

**Table 3-16 Operating reserve credits by unit type: January through March 2012 and 2013**

Unit Type	Jan - Mar 2012	Jan - Mar 2013	Change	Percentage Change	Jan - Mar 2012 Share	Jan - Mar 2013 Share
Battery	\$0	\$0	\$0	0.0%	0.0%	0.0%
Combined Cycle	\$25,984,786	\$111,641,562	\$85,656,776	329.6%	21.2%	43.9%
Combustion Turbine	\$31,768,029	\$37,074,077	\$5,306,048	16.7%	25.9%	14.6%
Diesel	\$2,063,199	\$3,635,263	\$1,572,064	76.2%	1.7%	1.4%
Fuel Cell	\$0	\$0	\$0	0.0%	0.0%	0.0%
Hydro	\$219,411	\$0	(\$219,411)	(100.0%)	0.2%	0.0%
Nuclear	\$0	\$0	\$0	0.0%	0.0%	0.0%
Solar	\$0	\$0	\$0	0.0%	0.0%	0.0%
Steam - Coal	\$58,679,977	\$90,796,221	\$32,116,245	54.7%	47.8%	35.7%
Steam - Other	\$1,633,408	\$8,799,378	\$7,165,970	438.7%	1.3%	3.5%
Wind	\$2,357,793	\$2,247,511	(\$110,282)	(4.7%)	1.9%	0.9%
Total	\$122,706,603	\$254,194,012	\$131,487,409	107.2%	100.0%	100.0%

**Table 3-17 Operating reserve credits by unit type: January through March 2013**

Unit Type	Day-Ahead Generator	Balancing Generator	Canceled Resources	Local Constraints Control	Lost Opportunity Cost	Reactive Services	Synchronous Condensing	Black Start Services
Battery	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Combined Cycle	52.6%	69.2%	100.0%	13.0%	5.0%	9.3%	0.0%	0.0%
Combustion Turbine	5.7%	12.9%	0.0%	0.0%	77.6%	5.0%	100.0%	0.1%
Diesel	0.0%	0.1%	0.0%	10.0%	0.1%	6.3%	0.0%	0.0%
Fuel Cell	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hydro	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nuclear	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Solar	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Steam - Coal	41.6%	11.5%	0.0%	77.0%	5.8%	79.4%	0.0%	99.9%
Steam - Others	0.1%	6.3%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
Wind	0.0%	0.0%	0.0%	0.0%	11.4%	0.0%	0.0%	0.0%
Total	\$17,425,457	\$139,225,870	\$7,218	\$79,563	\$19,664,029	\$55,579,356	\$1,873	\$22,210,646

Table 3-17 shows the distribution of operating reserve credits by unit type in the first three months of 2013. Combined cycle units received 52.6 percent of the day-ahead generator credits in the first three months of 2013, 10.0 percentage points higher than the share received in the first three months of 2012. Combined cycle units received 69.2 percent of the balancing generator credits in the first three months of 2013, 51.1 percentage points higher than the share received in the first three months of 2012. Combustion turbines

and diesels received 77.7 percent of the lost opportunity cost credits, 16.8 percentage points lower than the share received in the first three months of 2012.

Table 3-17 also shows the distribution of reactive service credits, synchronous condensing and black start services credits by unit type. In the first three months of 2013, combined cycle and coal units received 88.7 percent of all reactive services credits, 2.8 percentage points higher than the share received in the first three months of 2012. Synchronous condensing was only provided by combustion turbines. Coal units received 99.9 percent of all black start services credits.

## Economic and Noneconomic Generation<sup>18</sup>

Economic dispatch generation includes units scheduled day ahead or producing energy in real time at an incremental offer less than or equal to the LMP at the unit's bus. Noneconomic generation includes units that are scheduled or producing energy at an incremental offer higher than the LMP at the unit's bus. Units are paid day-ahead operating reserve credits based on their scheduled operation for the entire day. Balancing generator operating reserve credits are paid on a segmented basis for each period defined by the greater of the day-ahead schedule and minimum run time. Table 3-18 shows PJM's day-ahead and real-time total generation and the amount of generation eligible for operating reserve credits. In the Day-Ahead Energy Market only pool-scheduled resources are eligible for day-ahead operating reserve credits.

In the Real-Time Energy Market only pool-scheduled resources that follow PJM's dispatch instructions are eligible for balancing operating reserve credits.

<sup>18</sup> The analysis of economic and noneconomic generation is based on the units' incremental offer, the value used by PJM to calculate LMP. The analysis does not include no load or startup cost.

The MMU analyzed PJM's day-ahead and real-time generation eligible for operating reserve credits to determine the economic and noneconomic generation. Each unit's hourly generation was determined to be economic or noneconomic based solely on the unit's hourly incremental offer, excluding the hourly no load cost and any applicable startup cost. A unit could be economic for every hour during a day or segment, but still receive operating reserve credits because the energy revenues did not cover the additional hourly no load and startup costs. A unit could be noneconomic for an hour or multiple hours and not receive operating reserve credits because total energy revenues covered total hourly costs. In the first three months of 2013, 31.6 percent of the day-ahead generation was eligible for day-ahead operating reserve credits and 30.8 percent of the real-time generation was eligible for balancing operating reserve credits.<sup>19</sup>

**Table 3-18 Day-ahead and real-time generation (GWh): January through March 2013**

Energy Market	Total Generation	Generation Eligible for Operating Reserve Credits	Generation Eligible for Operating Reserve Credits Percentage
Day-Ahead	206,252	65,216	31.6%
Real-Time	202,674	62,430	30.8%

Table 3-19 shows PJM's economic and noneconomic generation eligible for operating reserve credits. In the first three months of 2013, 82.3 percent of the day-ahead generation eligible for operating reserve credits was economic and 67.3 percent of the real-time generation eligible for operating reserve credits was economic.

**Table 3-19 Day-ahead and real-time economic and noneconomic generation (GWh): January through March 2013**

Energy Market	Economic Generation	Noneconomic Generation	Economic Generation Percentage	Noneconomic Generation Percentage
Day-Ahead	53,691	11,525	82.3%	17.7%
Real-Time	42,009	20,421	67.3%	32.7%

<sup>19</sup> In the Day-Ahead Energy Market only pool-scheduled resources are eligible for day-ahead operating reserve credits. In the Real-Time Energy Market only pool-scheduled resources that operate as requested by PJM are eligible for balancing operating reserve credits.

Table 3-20 shows the generation receiving day-ahead and balancing operating reserve credits. In the first three months of 2013, 5.9 percent of the day-ahead generation eligible for operating reserve credits was made whole and 9.1 percent of the real-time generation eligible for operating reserve credits was made whole.

**Table 3-20 Day-ahead and real-time generation receiving operating reserve credits (GWh): January through March 2013**

Energy Market	Generation Eligible for Operating Reserve Credits	Generation Receiving Operating Reserve Credits	Generation Receiving Operating Reserve Credits Percentage
Day-Ahead	65,216	3,871	5.9%
Real-Time	62,430	5,699	9.1%

## Geography of Charges and Credits

Table 3-21 shows the geography of charges and credits in the first three months of 2013. Table 3-21 includes only day-ahead operating reserve charges and balancing operating reserve reliability and deviation charges since these categories are allocated regionally, while other charges, such as reactive services, synchronous condensing and black start services are allocated by control zone, and balancing local constraint charges are charged to the requesting party.

Charges are categorized by the location (control zone, hub or interface) where they are allocated according to PJM's operating reserve rules. Credits are categorized by the location where the resources are located. The shares columns reflect the operating reserve credits and charges balance for each location. For example, transactions in the AEP Control Zone paid 6.0 percent of all operating reserve charges allocated regionally, and resources in the AEP Control Zone were paid 2.8 percent of the corresponding credits. The AEP Control Zone received less operating reserve credits than operating reserve charges paid. Transactions in the PSEG Control Zone paid 7.9 percent of all operating reserve charges allocated regionally, and resources in the PSEG Control Zone were paid 57.9 percent of the corresponding credits. The PSEG Control Zone received more operating reserve credits than operating reserve

charges paid. Table 3-21 also shows that 79.7 percent of all charges were allocated in control zones, 6.3 percent in hubs and 14.0 percent in interfaces.

**Table 3-21 Geography of regional charges and credits: January through March 2013<sup>20</sup>**

Location		Charges	Credits	Balance	Total Charges	Shares	Total Credits	Deficit	Surplus
Zones	AECO	\$2,518,200	\$1,080,695	(\$1,437,505)	1.4%	0.6%	1.5%	0.0%	0.0%
	AEP	\$10,642,707	\$4,882,011	(\$5,760,695)	6.0%	2.8%	6.2%	0.0%	0.0%
	AP - DLCO	\$6,325,474	\$4,700,303	(\$1,625,171)	3.6%	2.7%	1.7%	0.0%	0.0%
	ATSI	\$5,555,723	\$6,611,868	\$1,056,145	3.2%	3.7%	0.0%	1.1%	0.0%
	BGE - Pepco	\$19,118,385	\$7,027,732	(\$12,090,653)	10.8%	4.0%	12.9%	0.0%	0.0%
	ComEd - External	\$8,215,752	\$5,105,259	(\$3,110,492)	4.7%	2.9%	3.3%	0.0%	0.0%
	DAY - DEOK	\$3,755,013	\$167,809	(\$3,587,203)	2.1%	0.1%	3.8%	0.0%	0.0%
	Dominion	\$19,181,720	\$13,065,661	(\$6,116,058)	10.9%	7.4%	6.5%	0.0%	0.0%
	DPL	\$5,602,863	\$4,482,317	(\$1,120,546)	3.2%	2.5%	1.2%	0.0%	0.0%
	JCPL	\$5,801,052	\$6,888,101	\$1,087,049	3.3%	3.9%	0.0%	1.2%	0.0%
	Met-Ed	\$4,895,235	\$954,070	(\$3,941,165)	2.8%	0.5%	4.2%	0.0%	0.0%
	PECO	\$12,296,327	\$1,817,146	(\$10,479,180)	7.0%	1.0%	11.2%	0.0%	0.0%
	PENELEC	\$9,292,515	\$1,222,441	(\$8,070,074)	5.3%	0.7%	8.6%	0.0%	0.0%
	PPL	\$12,970,177	\$16,197,326	\$3,227,149	7.4%	9.2%	0.0%	3.4%	0.0%
	PSEG	\$13,876,650	\$102,119,835	\$88,243,184	7.9%	57.9%	0.0%	94.3%	0.0%
	RECO	\$474,493	\$0	(\$474,493)	0.3%	0.0%	0.5%	0.0%	0.0%
	All Zones	\$140,522,284	\$176,322,574	\$35,800,290	79.7%	100.0%	61.8%	100.0%	0.0%
Hubs	AEP - Dayton	\$566,784	\$0	(\$566,784)	0.3%	0.0%	0.6%	0.0%	0.0%
	Dominion	\$719,366	\$0	(\$719,366)	0.4%	0.0%	0.8%	0.0%	0.0%
	Eastern	\$139,945	\$0	(\$139,945)	0.1%	0.0%	0.1%	0.0%	0.0%
	New Jersey	\$517,351	\$0	(\$517,351)	0.3%	0.0%	0.6%	0.0%	0.0%
	Ohio	\$12,846	\$0	(\$12,846)	0.0%	0.0%	0.0%	0.0%	0.0%
	Western Interface	\$391,898	\$0	(\$391,898)	0.2%	0.0%	0.4%	0.0%	0.0%
	Western	\$8,734,352	\$0	(\$8,734,352)	5.0%	0.0%	9.3%	0.0%	0.0%
	All Hubs	\$11,082,542	\$0	(\$11,082,542)	6.3%	0.0%	11.8%	0.0%	0.0%
Interfaces	IMO	\$1,553,006	\$0	(\$1,553,006)	0.9%	0.0%	1.7%	0.0%	0.0%
	Linden	\$988,006	\$0	(\$988,006)	0.6%	0.0%	1.1%	0.0%	0.0%
	MISO	\$1,095,329	\$0	(\$1,095,329)	0.6%	0.0%	1.2%	0.0%	0.0%
	Neptune	\$465,418	\$0	(\$465,418)	0.3%	0.0%	0.5%	0.0%	0.0%
	NIPSCO	\$1	\$0	(\$1)	0.0%	0.0%	0.0%	0.0%	0.0%
	Northwest	\$23,119	\$0	(\$23,119)	0.0%	0.0%	0.0%	0.0%	0.0%
	NYIS	\$5,075,060	\$0	(\$5,075,060)	2.9%	0.0%	5.4%	0.0%	0.0%
	OVEC	\$347,185	\$0	(\$347,185)	0.2%	0.0%	0.4%	0.0%	0.0%
	South Exp	\$3,424,647	\$0	(\$3,424,647)	1.9%	0.0%	3.7%	0.0%	0.0%
	South Imp	\$11,779,516	\$0	(\$11,779,516)	6.7%	0.0%	12.6%	0.0%	0.0%
	All Interfaces	\$24,751,287	\$33,538	(\$24,717,749)	14.0%	0.0%	26.4%	0.0%	0.0%
	Total	\$176,356,114	\$176,356,114	\$0	100.0%	100.0%	100.0%	100.0%	0.0%

<sup>20</sup> Zonal information in each zonal table has been aggregated to ensure that market sensitive data is not revealed. Table 3-22 does not include synchronous condensing and local constraint control charges and credits since these are allocated zonally.

Table 3-22 and Table 3-23 compare the share of balancing operating reserve charges paid by generators and balancing operating reserve credits paid to generators in the Eastern Region and the Western Region. Generator charges are defined in these tables as the allocation of charges paid by generators due to generator deviations from day-ahead schedules or not following PJM dispatch.

Table 3-22 shows that on average, 17.4 percent of the RTO and Eastern Region balancing generator charges, including lost opportunity cost and canceled resources charges were paid by generators deviating in the Eastern Region while these generators received 87.6 percent of all balancing generator credits including lost opportunity cost and canceled resources credits.

**Table 3-22 Monthly balancing operating reserve charges and credits to generators (Eastern Region): January through March 2013**

	Generators RTO Deviation Charges	Generators Regional Deviation Charges	Generators LOC and Canceled Resources Charges	Total Charges	Balancing, LOC and Canceled Resources Credits
Jan	\$2,089,238	\$7,208,786	\$1,160,254	\$10,458,278	\$66,359,694
Feb	\$545,372	\$11,135,895	\$368,041	\$12,049,308	\$61,850,876
Mar	\$590,935	\$578,031	\$594,689	\$1,763,656	\$10,980,626
Apr					
May					
Jun					
Jul					
Aug					
Sep					
Oct					
Nov					
Dec					
East Generators Total	\$3,225,545	\$18,922,713	\$2,122,984	\$24,271,242	\$139,191,197
PJM Total	\$30,061,634	\$90,153,613	\$19,671,247	\$139,886,495	\$158,930,655
Share	10.7%	21.0%	10.8%	17.4%	87.6%

**Table 3-23 Monthly balancing operating reserve charges and credits to generators (Western Region): January through March 2013**

	Generators RTO Deviation Charges	Generators Regional Deviation Charges	Generators LOC and Canceled Resources Charges	Total Charges	Balancing, LOC and Canceled Resources Credits
Jan	\$2,557,578	\$136,570	\$1,593,455	\$4,287,603	\$11,079,752
Feb	\$855,762	\$55,905	\$438,367	\$1,350,034	\$3,533,880
Mar	\$923,732	\$59,453	\$794,118	\$1,777,303	\$5,083,561
Apr					
May					
Jun					
Jul					
Aug					
Sep					
Oct					
Nov					
Dec					
West Generators Total	\$4,337,072	\$251,927	\$2,825,941	\$7,414,940	\$19,697,193
PJM Total	\$30,061,634	\$785,112	\$19,671,247	\$50,517,993	\$158,930,655
Share	14.4%	32.1%	14.4%	14.7%	12.4%

Table 3-23 also shows that generators in the Western Region paid 14.7 percent of the RTO and Western Region balancing generator charges including lost opportunity cost and canceled resources charges while these generators received 12.4 percent of all balancing generator credits including lost opportunity cost and canceled resources credits.

Table 3-24 shows that on average in the first three months of 2013, generator charges were 13.7 percent of all operating reserve charges, excluding local constraints control charges which are allocated to the requesting transmission owner, 3.5 percentage points higher than the average in the first three months of 2012. Generators received 99.99 percent of all operating reserve credits, while the remaining 0.01 percent were credits paid to import transactions and load response resources.

**Table 3-24 Percentage of unit credits and charges of total credits and charges: 2012 and 2013**

	2012		2013	
	Generators Share of Total Operating Reserve Charges	Generators Share of Total Operating Reserve Credits	Generators Share of Total Operating Reserve Charges	Generators Share of Total Operating Reserve Credits
Jan	10.8%	99.9%	12.2%	100.0%
Feb	8.2%	100.0%	14.1%	100.0%
Mar	11.7%	99.8%	8.0%	99.9%
Apr	13.6%	100.0%		
May	14.0%	100.0%		
Jun	13.6%	99.9%		
Jul	15.6%	99.8%		
Aug	14.6%	100.0%		
Sep	9.4%	100.0%		
Oct	12.6%	99.9%		
Nov	12.7%	99.8%		
Dec	8.8%	100.0%		
Average	10.2%	99.9%	13.7%	100.0%

Reactive services charges are allocated by zone or zones where the service is provided, and charged to real-time load of the zone or zones. The costs of running units that provide reactive services to the entire RTO Region are allocated to the entire RTO real-time load. Table 3-25 shows the geography of reactive services charges. In the first three months of 2013, 65.2 percent of all

reactive service charges were paid by real-time load in the single zone where the service was provided, 1.5 percent were paid by real-time load in multiple zones and 33.4 percent were paid by real-time load across the entire RTO. In the first three months of 2013, resources in two control zones accounted for 99.2 percent of all reactive services costs allocated across the entire RTO.

**Table 3-25 Geography of reactive services charges: January through March, 2013<sup>21</sup>**

Location	Charges	Share of Charges
Single Zone	\$36,185,210	65.2%
Multiple Zones	\$829,591	1.5%
Entire RTO	\$18,526,176	33.4%
Total	\$55,540,976	100.0%

In the first three months of 2013, the top three zones accounted for 77.4 percent of all the reactive services charges allocated to single zones. Also, only two sets of control zones (multiple zones) shared the costs of reactive services.

Black start services charges are allocated to zone and non-zone peak transmission use. Resources in one zone accounted for 99.9 percent of all the black start services costs in the first three months of 2013. These costs resulted from noneconomic operation of units providing black start service under the Automatic Load Rejection (ALR) option.<sup>22</sup>

Synchronous condensing charges are allocated by zone. Resources in one control zone accounted for all synchronous condensing costs in the first three months of 2013.<sup>23</sup>

<sup>21</sup> PJM and the MMU cannot publish more detailed information about the location of the costs of reactive services because of confidentiality requirements. See "Manual 33: Administrative Services for the PJM Interconnection Agreement," Revision 09 (July 22, 2010).

<sup>22</sup> PJM and the MMU cannot publish more detailed information about the location of the costs of black start because of confidentiality requirements. See "Manual 33: Administrative Services for the PJM Interconnection Agreement," Revision 09 (July 22, 2010).

<sup>23</sup> PJM and the MMU cannot publish more detailed information about the location of the costs of synchronous condensing because of confidentiality requirements. See "Manual 33: Administrative Services for the PJM Interconnection Agreement," Revision 09 (July 22, 2010).

## Operating Reserve Issues

### Concentration of Operating Reserve Credits

There remains a high degree of concentration in the units and companies receiving operating reserve credits. This concentration appears to result from a combination of unit operating characteristics and PJM's persistent need for operating reserves in particular locations.

The concentration of operating reserve credits is first examined by analyzing the characteristics of the top 10 units receiving operating reserve credits. The focus on the top 10 units is illustrative.

The concentration of operating reserve credits in the top 10 units remains high and it increased in the first three months of 2013 compared to the first three months of 2012. Table 3-26 shows the top 10 units receiving total operating reserve credits, which make up less than one percent of all units in PJM's footprint, received 48.6 percent of total operating reserve credits in the first three months of 2013, compared to 36.8 percent in the first three months of 2012.

**Table 3-26 Top 10 operating reserve credits units (By percent of total system): January through March 2012 and 2013**

	Top 10 Units Credit Share	Percent of Total PJM Units
Jan - Mar 2012	36.8%	0.8%
Jan - Mar 2013	48.6%	0.6%

Table 3-27 shows the credits received by the top 10 units and top 10 organizations in each of the operating reserve categories paid to generators. The shares of the top 10 organizations in all categories separately were above 89.0 percent.

**Table 3-27 Top 10 units and organizations operating reserve credits: January through March 2013**

Category	Type	Top 10 units		Top 10 organizations	
		Credits	Credits Share	Credits	Credits Share
Day-Ahead	Generators	\$11,766,789	67.5%	\$16,621,387	95.4%
	Canceled Resources	\$7,218	100.0%	\$7,218	100.0%
Balancing	Generators	\$103,039,794	74.0%	\$132,815,757	95.4%
	Local Constraints Control	\$79,563	100.0%	\$79,563	100.0%
	Lost Opportunity Cost	\$9,170,111	46.6%	\$17,532,974	89.2%
Reactive Services		\$33,118,771	59.6%	\$55,030,527	99.0%
Synchronous Condensing		\$1,873	100.0%	\$1,873	100.0%
Black Start Services		\$20,345,736	91.6%	\$22,210,646	100.0%
Total		\$123,652,432	48.6%	\$230,774,449	90.8%

Table 3-28 shows balancing operating reserve credits received by the top 10 units identified for reliability or for deviations in each region. In the first three months of 2013, 93.5 percent of all credits paid to these units were allocated to deviations while the remaining 6.5 percent were paid for reliability reasons.

**Table 3-28 Identification of balancing operating reserve credits received by the top 10 units by category and region: January through March 2013**

	Reliability			Deviations			Total
	RTO	East	West	RTO	East	West	
Credits	\$4,091,549	\$2,631,918	\$0	\$14,179,155	\$82,096,496	\$40,677	\$103,039,794
Share	4.0%	2.6%	0.0%	13.8%	79.7%	0.0%	100.0%

In the first three months of 2013, concentration in all operating reserve credits categories was high.<sup>24,25</sup> Operating reserve credits HHI was calculated based on each organization's daily credits for each category. Table 3-29 shows the average HHI for each category. HHI for day-ahead operating reserve credits was 5372, for balancing operating reserve generator credits was 5291 and for lost opportunity cost credits was 5418.

<sup>24</sup> See Section 2, "Energy Market" at "Market Concentration" for a more complete discussion of concentration ratios and the Herfindahl-Hirschman Index (HHI).

<sup>25</sup> Table 3-30 excludes the local constraints control categories.

**Table 3-29 Daily operating reserve credits HHI: January through March 2013**

Category	Type	Average	Minimum	Maximum	Highest market share (One day)	Highest market share (All days)
Day-Ahead	Generators	5372	1254	10000	100.0%	58.6%
	Imports	NA	NA	NA	NA	NA
	Load Response	NA	NA	NA	NA	NA
Balancing	Canceled Resources	10000	10000	10000	100.0%	100.0%
	Generators	5291	1511	9888	99.4%	64.7%
	Imports	10000	10000	10000	100.0%	100.0%
	Load Response	10000	10000	10000	100.0%	95.2%
	Lost Opportunity Cost	5418	1182	10000	100.0%	50.1%
Reactive Services		4060	2366	9728	98.6%	33.2%
Synchronous Condensing		10000	10000	10000	100.0%	100.0%
Black Start Services		9973	9063	10000	100.0%	99.9%
Total		9973	9063	10000	85.4%	40.1%

## Day-Ahead Unit Commitment for Reliability

PJM may schedule units as must run in the Day-Ahead Energy Market when needed in real time to address reliability issues of various types. PJM puts such reliability issues in four categories: voltage issues (high and low); black start requirement (from automatic load rejection units); local contingencies not seen in the Day-Ahead Energy Market; and long lead time units not able to be scheduled in the Day-Ahead Energy Market.<sup>26</sup> Participants can submit units as self-scheduled (must run), meaning that the unit must be committed but a unit submitted as must run by a participant cannot set LMP and is not eligible for day-ahead operating reserve credits.<sup>27</sup> Units scheduled as must run by PJM may set LMP if raised above economic minimum and are eligible for day-ahead operating reserve credits.

Table 3-30 shows the total day-ahead generation and the subset of that generation scheduled as must run by PJM. In the first three months of 2013, 4.1 percent of the total day-ahead generation was scheduled as must run by PJM, 2.3 percentage points higher than the first three months of 2012.<sup>28</sup>

<sup>26</sup> See "Item 12 - October 2012 MIC DAM Cost Allocation" from PJM's MIC meeting <<http://www.pjm.com/~media/committees-groups/committees/mic/20121010/20121010-item-12-october-2012-mic-dam-cost-allocation.ashx>>.

<sup>27</sup> See "PJM eMkt Users Guide" Section Managing Unit Data (version June, 2012) p. 40.

<sup>28</sup> PJM increased the amount of generation scheduled as must run on September 13, 2012. See 2012 State of the Market Report for PJM: Volume II, Section 3, "Operating Reserve" at "Day-Ahead Unit Commitment for Reliability" for further details on the September 13 day-ahead scheduling process change.

Table 3-30 Day-ahead generation scheduled as must run by PJM: 2012 and 2013

	2012			2013		
	Total Day-Ahead Generation	Day-Ahead PJM Must Run Generation	Share	Total Day-Ahead Generation	Day-Ahead PJM Must Run Generation	Share
Jan	71,152	1,312	1.8%	72,681	2,907	4.0%
Feb	63,642	1,191	1.9%	65,632	2,474	3.8%
Mar	60,513	1,109	1.8%	67,940	3,178	4.7%
Apr	55,999	1,099	2.0%			
May	62,986	1,944	3.1%			
Jun	69,190	1,841	2.7%			
Jul	82,984	3,618	4.4%			
Aug	76,161	2,438	3.2%			
Sep	63,535	2,902	4.6%			
Oct	60,656	3,509	5.8%			
Nov	62,985	3,542	5.6%			
Dec	68,759	2,347	3.4%			
Total	195,307	3,611	1.8%	206,252	8,559	4.1%

Pool-scheduled units are made whole in the Day-Ahead Energy Market if their total offer (including no load and startup costs) is greater than the revenues from the Day-Ahead Energy Market. Such units are paid day-ahead operating reserve credits. Pool-scheduled units scheduled as must run by PJM are only paid day-ahead operating reserve credits when their total offer is greater than the revenues from the Day-Ahead Energy Market. Table 3-31 shows the total day-ahead generation scheduled as must run by PJM by category. In the first three months of 2013, 67.4 percent of the day-ahead generation scheduled as must run by PJM received operating reserve credits, of which, 15.0 percent were credits paid to units scheduled to provide black start services, 41.3 percent were credits paid to units scheduled to provide reactive services and 11.1 percent were normal day-ahead operating reserve credits paid to units scheduled noneconomic. The remaining 32.6 percent of the day-ahead generation scheduled as must run by PJM did not need to be made whole.

Table 3-31 Day-ahead generation scheduled as must run by PJM by category: 2013

	Black Start Services	Reactive Services	Day-Ahead Operating Reserves	Economic	Total
	Jan	433	1,271	250	954
Feb	430	1,356	206	481	2,474
Mar	424	909	490	1,354	3,178
Apr					
May					
Jun					
Jul					
Aug					
Sep					
Oct					
Nov					
Dec					
Total	1,287	3,536	947	2,789	8,559
Share	15.0%	41.3%	11.1%	32.6%	100.0%

Total day-ahead operating reserve credits in the first three months of 2013 were \$8.8 million, 50.8 percent of that total was paid to units scheduled as must run by PJM, not scheduled to provide black start or reactive services.

The MMU recommends PJM clearly identify and classify all reasons for incurring operating reserves in the Day-Ahead and the Real-Time Energy Markets in order to help ensure a long term solution to the issue of how to allocate the costs of operating reserves. The overall goal should be to have dispatcher decisions reflected in transparent market outcomes to the maximum extent possible and to minimize the level and rate of operating reserve charges.

### Lost Opportunity Cost Credits

Balancing operating reserve lost opportunity cost credits are paid to units under two scenarios. If a combustion turbine or a diesel is scheduled to operate in day-ahead but is not requested by PJM in real time, the unit will receive a credit which covers the day-ahead financial position of the unit plus balancing spot energy market charges that the unit will have to pay. For

purposes of this report, this lost opportunity cost will be referred as day-ahead lost opportunity cost.<sup>29</sup> If a unit generating in real time with an offer price lower than the LMP at the unit's bus is reduced or suspended by PJM due to a transmission constraint or other reliability issue, the unit will receive a credit for lost opportunity cost based on the desired output. For purposes of this report, this lost opportunity cost will be referred as real-time lost opportunity cost.

In the first three months of 2013, lost opportunity cost credits decreased by \$1.2 million or 5.8 percent compared to the first three months of 2012. The decrease of \$1.2 million is comprised of a decrease of \$4.0 million of day-ahead lost opportunity cost and an increase of \$2.7 million of real-time lost opportunity cost. Table 3-34 shows the monthly composition of lost opportunity cost credits in 2012 and 2013.

Day-ahead lost opportunity cost (payments to combustion turbines and diesels scheduled in the Day-Ahead Market and not requested in real time) continue to receive the majority of all lost opportunity cost credits. In the first three months of 2013, day-ahead lost opportunity cost were 80.2 percent of all lost opportunity cost credits. Combustion turbines and diesels are only eligible for day-ahead lost opportunity cost if the units are scheduled in day ahead. Table 3-33 shows, for combustion turbines and diesels scheduled day ahead, the total day-ahead generation, the day-ahead generation from units that were not requested by PJM in real time and the subset of that generation that received lost opportunity costs credits. In the first three months of 2013, PJM scheduled 2,125 GWh from combustion turbines and diesels, of which 58.4 percent was not requested by PJM in real time and of which 48.1 percent received lost opportunity cost credits, 19.2 percentage points lower than the first three months of 2012.

**Table 3-32 Monthly lost opportunity cost credits: 2012 and 2013**

	2012			2013		
	Day-Ahead Lost Opportunity Cost	Real-Time Lost Opportunity Cost	Total	Day-Ahead Lost Opportunity Cost	Real-Time Lost Opportunity Cost	Total
Jan	\$5,116,947	\$332,282	\$5,449,229	\$8,862,207	\$1,840,110	\$10,702,318
Feb	\$4,277,162	\$366,971	\$4,644,133	\$2,050,724	\$1,245,178	\$3,295,902
Mar	\$10,327,361	\$450,299	\$10,777,660	\$4,854,970	\$810,838	\$5,665,808
Apr	\$11,814,780	\$692,309	\$12,507,090			
May	\$15,806,150	\$3,502,912	\$19,309,062			
Jun	\$14,502,682	\$677,375	\$15,180,057			
Jul	\$27,875,651	\$3,066,115	\$30,941,767			
Aug	\$25,573,420	\$1,202,079	\$26,775,499			
Sep	\$19,723,184	\$1,825,454	\$21,548,638			
Oct	\$12,391,362	\$7,619,940	\$20,011,303			
Nov	\$14,547,688	\$4,073,072	\$18,620,760			
Dec	\$5,177,551	\$987,447	\$6,164,998			
Total	\$19,721,471	\$1,149,552	\$20,871,023	\$15,767,902	\$3,896,126	\$19,664,028
Share of Total	94.5%	5.5%	100.0%	80.2%	19.8%	100.0%

<sup>29</sup> A unit's day-ahead financial position equals the revenues from the Day-Ahead Energy Market subtracted by the expected costs (valued at the unit's offer curve cleared in day ahead). A unit scheduled in the Day-Ahead Energy Market and not called in real time incurs in balancing spot energy charges since it has to cover its day-ahead MWh position in real time.

**Table 3-33 Day-ahead generation from combustion turbines and diesels (GWh): 2012 and 2013**

	2012			2013		
	Day-Ahead Generation	Day-Ahead Generation Not Requested in Real Time	Day-Ahead Generation Not Requested in Real Time Receiving LOC Credits	Day-Ahead Generation	Day-Ahead Generation Not Requested in Real Time	Day-Ahead Generation Not Requested in Real Time Receiving LOC Credits
Jan	572	435	373	886	638	565
Feb	753	590	546	430	206	173
Mar	1,408	1,076	921	809	397	283
Apr	1,870	1,431	1,249			
May	1,926	1,250	1,046			
Jun	2,586	1,624	1,235			
Jul	3,898	1,424	988			
Aug	2,356	1,383	1,122			
Sep	1,635	1,169	1,032			
Oct	1,079	895	797			
Nov	1,319	1,018	823			
Dec	851	678	625			
Total	2,734	2,101	1,840	2,125	1,241	1,022
Share	100.0%	76.9%	67.3%	100.0%	58.4%	48.1%

**Table 3-34 Lost opportunity cost credits paid to combustion turbines and diesels by scenario: 2012 and 2013**

	2012			2013		
	Units That Did Not Run in Real Time	Units That Ran in Real Time for At Least One Hour of Their Day-Ahead Schedule	Total	Units That Did Not Run in Real Time	Units That Ran in Real Time for At Least One Hour of Their Day-Ahead Schedule	Total
Jan	\$4,857,442	\$355,007	\$5,212,449	\$8,166,901	\$695,307	\$8,862,207
Feb	\$4,382,996	\$154,019	\$4,537,015	\$1,860,546	\$190,178	\$2,050,724
Mar	\$9,661,923	\$894,042	\$10,555,965	\$3,031,710	\$1,823,260	\$4,854,970
Apr	\$10,846,998	\$1,028,201	\$11,875,199			
May	\$12,925,885	\$2,775,886	\$15,701,771			
Jun	\$12,550,655	\$2,163,079	\$14,713,734			
Jul	\$13,911,706	\$13,967,989	\$27,879,694			
Aug	\$22,219,006	\$3,415,961	\$25,634,967			
Sep	\$17,783,763	\$2,196,639	\$19,980,402			
Oct	\$11,185,166	\$1,296,974	\$12,482,141			
Nov	\$12,704,380	\$2,130,370	\$14,834,749			
Dec	\$4,979,204	\$364,570	\$5,343,774			
Total	\$18,902,361	\$1,403,068	\$20,305,429	\$13,059,157	\$2,708,745	\$15,767,902
Share of Total	93.1%	6.9%	100.0%	82.8%	17.2%	100.0%

In the first three months of 2013, the top three control zones in which generation received lost opportunity cost credits, ATSI, AP and ComEd accounted for 70.3 percent of all lost opportunity cost credits, 54.0 percent of all the day-ahead generation from combustion turbines and diesels and 82.0 percent of all day-ahead generation not called in real time by PJM and receiving lost opportunity cost credits from those unit types.

Combustion turbines and diesels receive lost opportunity cost credits on an hourly basis. For example, if a combustion turbine is scheduled to run from hour 10 to hour 18 and the unit only runs from hour 12 to hour 16, the unit is eligible for lost opportunity cost credits for hours 10, 11, 17 and 18. Table 3-34 shows the lost opportunity costs credits paid to combustion turbines and diesels scheduled in the Day-Ahead Energy Market for units that did not run in real time and units that ran in real time for at least one hour of their day-ahead schedule. Table 3-34 shows that in the first three months of 2013, \$13.1 million or 82.8 percent of all lost opportunity cost credits were paid to combustion turbines and diesels that did not run for any hour in real time.

PJM may not run units in real time if the real-time value of that energy (generation multiplied by the real-time LMP) is lower than the units' total offer (including no load and startup costs). Table 3-35 shows the total day-ahead generation from combustion turbines and diesels that were not called in real time by PJM and received lost opportunity cost credit. Table 3-35 shows the scheduled generation that had a total offer (including no load and startup costs) lower than its real-time value (generation multiplied by the real-time LMP) or economic scheduled generation, and the scheduled generation that had a total offer greater than its real-time value or noneconomic scheduled generation. In the first three months of 2013, 75.7 percent of the scheduled generation not called by PJM from units receiving lost opportunity cost credits was economic and the remaining 24.3 percent was noneconomic.

**Table 3-35 Day-ahead generation (GWh) from combustion turbines and diesels receiving lost opportunity cost credits by value: 2012 and 2013<sup>30</sup>**

	2012			2013		
	Economic Scheduled Generation (GWh)	Noneconomic Scheduled Generation (GWh)	Total (GWh)	Economic Scheduled Generation (GWh)	Noneconomic Scheduled Generation (GWh)	Total (GWh)
Jan	309	136	445	548	121	669
Feb	422	248	670	171	53	224
Mar	805	287	1,092	272	145	417
Apr	1,126	329	1,455			
May	875	363	1,237			
Jun	835	667	1,501			
Jul	826	402	1,228			
Aug	946	397	1,343			
Sep	880	305	1,185			
Oct	710	193	903			
Nov	782	280	1,062			
Dec	434	298	732			
Total	1,536	671	2,208	991	319	1,310
Share	69.6%	30.4%	100.0%	75.7%	24.3%	100.0%

The MMU recommends that PJM initiate an analysis of the reasons why some combustion turbines and diesels scheduled in the Day-Ahead Energy Market are not called in real time when they are economic.

### Lost Opportunity Cost Calculation

On February 17, 2012, the PJM Market Implementation Committee (MIC) endorsed the charge to prepare a proposal to make all energy related lost opportunity costs calculations consistent throughout the PJM rules.<sup>31</sup> PJM and the MMU jointly proposed two specific modifications. The MMU also believes that two additional modifications would be appropriate but the MMU has not formally recommended these to the MIC for consideration although they were brought to the attention of the MIC.

- **Unit Schedule Used:** Current rules require the use of the higher of a unit's price-based and cost-based schedules to calculate the lost opportunity

<sup>30</sup> The total generation in Table 3-36 is lower than the Day-Ahead Generation not requested in Real Time in Table 3-34 because the former only includes generation from units that received lost opportunity costs during at least one hour of the day. Table 3-36 includes all generation, including generation from units that were not called in real time and did not receive lost opportunity cost credits.

<sup>31</sup> See "Meeting Minutes," from PJM's MIC meeting, <<http://www.pjm.com/~media/committees-groups/committees/mic/20120217/20120217-minutes.ashx>>. (April 4, 2012)

cost in the energy market. The MMU recommends that the lost opportunity cost in the energy and ancillary services markets be calculated using the schedule on which the unit was scheduled to run in the energy market.

- **No load and startup costs:** Current rules do not include in the calculation of lost opportunity cost credits all of the costs not incurred by a scheduled unit not running in real time. Generating units do not incur no load or startup costs if they are not dispatched in real time. As a result, no load and startup costs should be subtracted from the real time LMP in the same way that the incremental energy offer is subtracted to calculate the actual value of the opportunity lost by the unit. The MMU recommends including no load and startup costs as part of the total avoided costs in the calculation of lost opportunity cost credits paid to combustion turbines and diesels scheduled in the Day-Ahead Energy Market but not called in real time.
- **Day-Ahead LMP:** Current rules require the use of the day-ahead LMP as part of the lost opportunity cost calculation logic when a unit is scheduled on a noneconomic basis day ahead, meaning that the unit's offer is greater than the day-ahead LMP. In the Day-Ahead Energy Market, such units receive operating reserve credits equal to the difference between the unit's offer (including no load and startup costs) and the day-ahead LMP. If such a unit is not dispatched in real time, under the current rules the unit receives lost opportunity cost credits equal to the difference between the real-time LMP and the day-ahead LMP. This calculation results in double counting because the unit has already been made whole to its day-ahead offer in the Day-Ahead Energy Market through day-ahead operating reserve credits if necessary. If the unit is not dispatched in real time, it should receive only the difference between real-time LMP and the unit's offer, which is the actual lost opportunity cost. The MMU recommends eliminating the use of the day-ahead LMP to calculate lost opportunity cost credits paid to combustion turbines and diesels scheduled in the Day-Ahead Energy Market but not called in real time.
- **Offer Curve:** Current rules require the use of the difference between the real-time LMP and the incremental offer at a single point on the offer curve (at the actual or scheduled output), instead of using the difference

between the real-time LMP and the entire offer curve (area between the LMP and the offer curve) when calculating the lost opportunity cost in the PJM Energy Markets for units scheduled in day ahead but which are backed down or not dispatched in real time. Units with an offer lower than the real-time LMP at the units' bus that are reduced in real time by PJM should be paid lost opportunity cost based on the area between the real time LMP and their offer curve between the actual and desired output points. Units scheduled in day ahead and not dispatched in real time should be paid lost opportunity cost based on the area between the real-time LMP and their offer curve between zero output and scheduled output points. The MMU recommends using the entire offer curve and not a single point on the offer curve to calculate energy lost opportunity cost.

These four modifications are consistent with the inputs used by PJM's software to commit combustion turbines in real time. PJM's commitment process is based on the forecasted LMPs, the reliability requirements, reserve requirement and the total cost of the units. The total cost of the units includes no load costs and startup costs and is based on the units' price schedule if available and the unit does not fail the TPS test.

Table 3-36 shows the impact that each of these changes would have had on the lost opportunity cost credits in the energy market for the first three months of 2013, for the two categories of lost opportunity cost credits. Energy lost opportunity cost credits would have been reduced by \$6.7 million, or 34.0 percent, if all these changes had been implemented.<sup>32</sup>

<sup>32</sup> The impacts on the lost opportunity cost credits were calculated following the order presented. Eliminating one of the changes has an effect on the remaining impacts.

**Table 3-36 Impact on energy market lost opportunity cost credits of rule changes: January through March 2013**

	LOC when output reduced in RT	LOC when scheduled DA not called RT	Total
Current Credits	\$3,896,126	\$15,767,902	\$19,664,028
Impact 1: Committed Schedule	\$191,053	\$1,616,540	\$1,807,593
Impact 2: Eliminating DA LMP	NA	(\$57,914)	(\$57,914)
Impact 3: Using Offer Curve	(\$546,911)	\$894,669	\$347,758
Impact 4: Including No Load Cost	NA	(\$7,202,071)	(\$7,202,071)
Impact 5: Including Startup Cost	NA	(\$1,581,000)	(\$1,581,000)
Net Impact	(\$355,858)	(\$6,329,776)	(\$6,685,634)
Credits After Changes	\$3,540,269	\$9,438,125	\$12,978,394

Table 3-37 shows the impact of each of the proposed modifications made jointly by PJM and the MMU. Energy lost opportunity cost credits would have been reduced by \$6.7 million, or 33.8 percent, if the two proposed modifications had been implemented.

**Table 3-37 Impact on energy market lost opportunity cost credits of proposed rule changes: January through March 2013**

	LOC when output reduced in RT	LOC when scheduled DA not called RT	Total
Current Credits	\$3,896,126	\$15,767,902	\$19,664,028
Impact 1: Committed Schedule	\$191,053	\$1,616,540	\$1,807,593
Impact 2: Including No Load Cost	NA	(\$6,957,137)	(\$6,957,137)
Impact 3: Including Startup Cost	NA	(\$1,500,685)	(\$1,500,685)
Net Impact	\$191,053	(\$6,841,282)	(\$6,650,229)
Credits After Changes	\$4,087,179	\$8,926,619	\$13,013,799

## Black Start Service Units

Certain units located in the AEP control zone are relied on for their black start capability on a regular basis even during periods when the units are not economic. The relevant black start units provide black start service under the Automatic Load Rejection (ALR) option, which means that the units must be running even if not economic. Units providing black start service under the ALR option could remain running at a minimum level, disconnected from the grid. The costs of the noneconomic operation of these units results in make whole payments in the form of operating reserve credits. The MMU

recommended that these costs should be allocated as black start charges. This recommendation was made effective on December 1, 2012.<sup>33</sup>

In the first three months of 2013, the cost of the noneconomic operation of ALR units in the AEP control zone was \$22.2 million, 94.8 percent of these costs was paid by peak transmission use in the AEP control zone while the remaining 5.2 percent was paid by non-zone peak transmission use.

PJM and AEP have issued two requests for proposal (RFP) seeking additional black start capability for the AEP control zone, the results from the latest RFP are still pending. PJM has approved new rules concerning black start service procurement, and the new selection process will be effective on April 1, 2015.<sup>34,35</sup>

### Con Edison – PSEG Wheeling Contracts Support

It appears that certain units located near the boundary between New Jersey and New York City have been operated to support the wheeling contracts between Con-Ed and PSEG.<sup>36</sup> These units are often run out-of-merit and received substantial balancing operating reserve credits. The MMU recommends that this issue be addressed by PJM in order to determine if the cost of running these units is being allocated properly.

### Reactive / Voltage Support Units

Certain units located in the BGE and Pepco control zones are committed to provide reactive support to the AP-South interface. The AP-South interface consists of four 500 kV transmission lines that connected the Western and Eastern regions of PJM. PJM approved in the 2012 Regional Transmission Expansion Planning (RTEP) seven reactive upgrades to solve identified N-1-1 low voltage NERC criteria violations, and five of the seven upgrades are located in substations at or near the AP-South interface. These upgrades should reduce the need for noneconomic operation of units to provide reactive support to the AP-South interface.

<sup>33</sup> See PJM Interconnection, LLC., Docket No. ER13-481-000 (November 30, 2012).

<sup>34</sup> See the *2012 State of the Market Report for PJM*, Volume II, Section 9, "Ancillary Services" at "Black Start Service".

<sup>35</sup> See "Manual 14D: Generator Operational Requirement" Revision 23 (April 1, 2013) at "Section 10: Black Start Generation Procurement".

<sup>36</sup> See the *2012 State of the Market Report for PJM*, Volume II, Section 8, "Interchange Transactions" at "Con Edison and PSEEG Wheeling Contracts" for a description of the contracts.

## Reactive Service Credits and Operating Reserve Credits

Credits to resources providing reactive services are separate from operating reserve credits.<sup>37</sup> Under the rules providing for credits for reactive service, units are not assured recovery of the entire offer including no load and startup costs as they are under the operating reserve credits rules. Units providing reactive services at the request of PJM are made whole through reactive service credits. But when the reactive service credits do not cover a unit's entire offer, the unit is paid through balancing operating reserves. The result is a misallocation of the costs of providing reactive service. Reactive service credits are paid by real-time load in the control zone or zones where the service is provided while balancing operating reserve are paid by deviations from day-ahead or real-time load plus exports depending on the allocation process rather than by zone.

In the first three months of 2013, units providing reactive services were paid \$1.5 million in balancing operating reserve credits in order to cover their total energy offer. Of these credits, 49.2 percent were paid by deviations in the RTO Region, 34.3 percent by real-time load and real-time exports in the RTO Region and 16.5 percent by deviations in the Eastern and Western Regions.

Table 3-38 shows the impact of these credits in each of the balancing operating reserve categories.

<sup>37</sup> OATT Attachment K - Appendix S 3.2.3B (f).

**Table 3-38 Impact of credits paid to units providing reactive services on the balancing operating reserve rates (\$/MWh): January through March 2013**

Category	Region	Balancing Operating Reserve Rates (\$/MWh)		Difference	
		Current	Without Credits to Units Providing Reactive Services	(\$/MWh)	Percentage
Reliability	RTO	0.058	0.055	(0.002)	(4.3%)
	East	0.065	0.065	0.000	0.0%
	West	0.003	0.003	0.000	0.0%
Deviation	RTO	1.001	0.977	(0.024)	(2.4%)
	East	5.967	5.956	(0.011)	(0.2%)
	West	0.055	0.049	(0.006)	(10.4%)

On October 10, 2012 and November 7, 2012 the MMU presented this issue at PJM's Market Implementation Committee (MIC).<sup>38,39</sup> The MIC endorsed the issue charge and approved merging this issue with the long term solution for the allocation of the cost of day-ahead operating reserves for reliability.<sup>40</sup>

The MMU recommends that the total cost of providing reactive support be categorized and allocated as reactive services. Reactive services credits should be equal to the positive difference between total offer (including no load and startup costs) and energy revenues. In addition, the MMU recommends that reactive services credits be calculated on segments which include all hours for which unit provides reactive service. Segments should be the higher of hours needed for reactive support and minimum run time.

## Up-to Congestion Transactions

Up-to congestion transactions do not pay operating reserve charges. The MMU calculated the impact on operating reserve rates if up-to congestion transactions had paid operating reserve charges based on deviations in the same way that increment offers and decrement bids do, while accounting for the impact of such payments on the profitability of the transactions.

<sup>38</sup> See "Item 7: Reactive Service and Operating Reserve Credits Problem Statement and Issue Charge," from the PJM's MIC October 10, 2012 meeting. <<http://www.pjm.com/~media/committees-groups/committees/mic/20121010/20121010-item-07-reactive-service-and-operating-reserve-credits-problem-statement-and-issue-charge.ashx>>.

<sup>39</sup> See "Minutes," from PJM's MIC November 7, 2012 meeting, <<http://www.pjm.com/~media/committees-groups/committees/mic/20121107/20121107-draft-minutes-mic-20121107.ashx>>.

<sup>40</sup> PJM created the MIC sub group Day Ahead (DA) Reliability and Reactive Cost Allocation (DARRCA) to address the allocation of the cost of reactive services in day ahead and real time. <<http://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue={323CE736-A41E-49D4-A8AF-687BB3697AE9}>> (Accessed January 11, 2013).

In the first three months of 2013, 52.8 percent of all up-to congestion transactions were profitable.<sup>41</sup>

The MMU calculated the up-to congestion transactions that would have remained if operating reserve charges had been applied. It was assumed that up-to congestion transactions would have had the same shares of profitable and unprofitable transactions after paying operating reserve charges as when no operating reserve charges were paid. If up-to congestion transactions were allocated operating reserve charges, only 45.8 percent of all up-to congestion transactions would have been made. Even with this reduction in the level of up-to congestion transactions, the contribution to total operating reserve charges and the impact on other participants who pay those charges would have been significant.

Table 3-39 shows the impact that including the identified 45.8 percent of up-to congestion transactions in the allocation of operating reserve charges would have had on the operating reserve charge rates in the first three months of 2013. For example, the RTO deviations rate would have been reduced by 74.7 percent.

**Table 3-39 Up-to congestion transactions impact on operating reserve rates: January through March 2013**

	Current Rates (\$/MWh)	Rates Including Up-To Congestion Transactions (\$/MWh)	Difference (\$/MWh)	Percentage Difference
Day-Ahead	0.082	0.068	(0.014)	(17.4%)
RTO Deviations	1.001	0.253	(0.748)	(74.7%)
East Deviations	5.967	2.347	(3.619)	(60.7%)
West Deviations	0.055	0.010	(0.045)	(82.0%)
Lost Opportunity Cost	0.655	0.166	(0.489)	(74.7%)
Canceled Resources	0.000	0.000	(0.000)	(74.7%)

The MMU recommends, while the up-to congestion transaction product remains and in the absence of a plan to allocate operating reserve charges to all relevant transactions, that up-to congestion transactions be required to pay a fee in lieu of operating reserve charges equal to \$0.50 per MWh. This

<sup>41</sup> An up-to congestion transaction profitability is based on its market value (difference between the day-ahead and real-time value) net of PJM and MMU administrative charges.

rate is intended to reflect the lowest operating reserve rates charged to other virtual transactions in 2012.

### Confidentiality of Operating Reserves Information

PJM rules require all data posted publicly by PJM or the MMU to comply with existing confidentiality rules. Current rules do not appear to allow posting data containing three or fewer PJM participants and cannot be aggregated in a geographic area smaller than a control zone.<sup>42</sup>

Operating reserves are out of market, non-transparent payments made to resources operating on the behalf of PJM to provide transmission constraint relief or other reliability services. Operating reserve charges are highly concentrated in a small number of zones and paid to a small number of PJM participants. These costs are not reflected in PJM market prices. Current confidentiality rules prevent the publication of detailed data concerning the reasons and locations of these payments, making it difficult for other participants to compete with the units receiving operating reserve payments. The confidentiality rules were implemented in order to protect competition. The application of confidentiality rules in the case of operating reserves information does exactly the opposite. There is no market in operating reserves and the absence of relevant information creates a very effective barrier to entry. The MMU recommends that PJM revise the current operating reserve confidentiality rules in order to allow the disclosure of information regarding the reasons for operating reserve payments in the PJM region. This information would include the publication of operating reserve information by zone, by owner and by unit.

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<sup>42</sup> See "Manual 33 Administrative Services for the PJM Interconnection Operating Agreement" Revision 9 (July 22, 2012), Market Data Posting .

