

Revised Synchronized Reserve Offer Margin

EPFSTF

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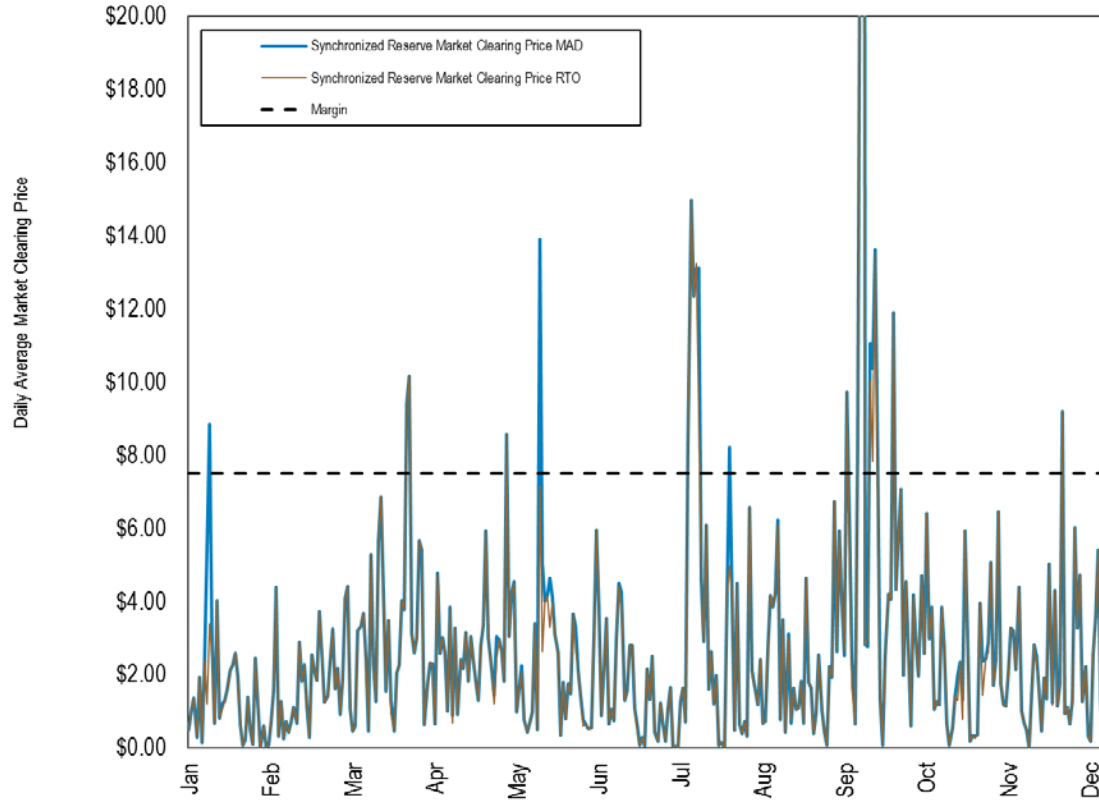


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Revise the \$7.50 per MW Margin

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

Synchronized Reserve Prices in 2017



Considerations

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

Analysis

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

Observations

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

Recommendation

- **The IMM recommends revising the synchronized reserve offer margin to \$3.80 per MWh.**

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