

Synchronized Reserve Maintenance Costs

Problem / Opportunity Statement

Synchronized reserve offers are the offers submitted by resources for providing Tier 2 reserves in the real-time market. All synchronized reserve offers are capped at \$7.50 per MW plus operations and maintenance costs. The operations and maintenance costs are duplicative with the operations and maintenance costs included in the incremental energy offer and the no load offer, which allow generators to include all operating and maintenance costs associated with providing energy.

In the proceedings of the Energy Price Formation Senior Task Force, PJM and the IMM presented this issue and agreed that operations and maintenance costs for synchronized reserve offers should be removed from the PJM Market Rules. The removal of operations and maintenance costs for synchronized reserve offers is pending in FERC Docket No. EL19-58.

The PJM Cost Development Guidelines (Manual 15) contain specific provisions for steam unit synchronized reserve operations and maintenance costs which Manual 15 describes as attributable to a heat rate increase incurred while providing synchronized reserves. However, the incremental energy offer curve and the no load costs described in Operating Agreement Schedule 2 and Manual 15 already take into account varying heat rates for resources operating at a lower output level to provide reserves. The additional synchronized reserve provisions are duplicative and the calculation in Manual 15 is invalid.

A spreadsheet providing an example of the calculation is posted on the PJM website.¹

Synchronized reserve resources use this calculation and the offers resulting from the calculation have increased with the increase in maintenance adders approved by PJM in 2019. Use of this inaccurate calculation allows resources to withhold from the synchronized reserve market and increases synchronized reserve prices above competitive levels.

¹ See Synchronized Reserve Cost-based Offer Validation at <<https://pjm.com/-/media/markets-ops/ancillary/synchronized-reserve-cost-based-offer-validation.ashx?la=en>> , last accessed December 26, 2019.