SIR20 IMPROVED ECONOMIC INCENTIVE OF REGULATION MILEAGE

SPP MARKET MONITOR

MARCH 18, 2020
SIR20 IMPROVE ECONOMIC INCENTIVE OF REGULATION MILEAGE MARKET MONITORING

- **What will the initiative do for SPP’s Market:**
  - Improved price formation of the regulation mileage market clearing price
    - Market clearing price for regulation mileage is set by highest mileage offer cleared for regulation service
  - Introduces a gaming opportunity
  - Improved establishment of regulation mileage factor
    - Mileage factor is set based on historic MW regulation instructions rather than delivered MW
  - Improve unused mileage make-whole payment
    - Resources receiving unused regulation mileage make-whole payment lose margin on capacity and mileage
How is SPP’s market improved by implementing the initiative:

- Improved pricing signal for regulation service
  - Proper price formation of regulation mileage market clearing price
  - Proper price formation of regulation service market clearing price
- Removes systematic overpayment of regulation mileage based on mileage factor
- Removes excessive buyback of unused mileage based on overpayment
- Removes risk of losing regulation capacity margin from buying back mileage
- Removal of gaming opportunity
  - Two-part regulation service offer allows opportunity to set excessive mileage market clearing price that is then paid for all excess regulation mileage.
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• Potential System Impacts:
  • DA, MCE, MDB, MMU Process, Settlements, RTBM, RTGEN

• Potential MCE Performance Impact:
  • Low

• Potential Complexity:
  • Design: Medium
  • Implementation: Low

• Potential Risks:
  • TBD, none known

• Market Philosophy Impacts: Price Formation, Price Convergence, Market Efficiency, Market Transparency, Market Reliability
  • All
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• Example/Research/Analysis Information:

  • The MMU first presented and discussed regulation mileage issues with the MWG in August of 2018:
    • 2018 - August MWG material:
      https://www.spp.org/Documents/58414/MWG%20Agenda%20&%20Background%20Materials%

  • The MMU included the issue as a recommendation in their 2019 Annual State of the Market report:
    • 2018 MMU Annual State of the Market report: