

Fuel Cost Policy FAQs

All Market Sellers must have a PJM-approved Fuel Cost Policy, or utilize a temporary cost offer methodology, for each fuel type that they enter a non-zero cost-based offer into the Day-Ahead and Real-Time Energy Market pursuant to Operating Agreement, Schedule 2.

1. Who is required to have an approved Fuel Cost Policy?

Market Sellers that offer a generation resource, including external capacity and energy-only resources, that submit a non-zero cost-based offer (including negative offers) in the PJM Interchange Energy Market, must have a PJM-approved Fuel Cost Policy or indicate to PJM that they would like to utilize the temporary cost offer methodology consistent with fuel type in accordance with Manual 15, and the Operating Agreement, Schedule 2.

2. What is the temporary cost offer methodology?

- The temporary cost offer methodology allows Market Sellers to submit a non-zero cost-based offer into the energy market while working on a new policy with PJM and the IMM.
- The temporary cost offer methodology is calculated using an index settle price, at the PJM-assigned commodity pricing point multiplied by heat input curves submitted by the Market Seller, as described in Manual 15.
- To submit a request to use the temporary cost offer methodology, please email FuelCostPolicyAnalysis@pjm.com.

3. What if I do not have an approved Fuel Cost Policy and have not elected to use the temporary cost offer methodology?

Market Sellers that do not have an approved Fuel Cost Policy and have not indicated their desire to utilize the temporary cost offer methodology will only be able to enter \$0 into Markets Gateway for the resources cost-based schedules. This includes start up, no load, and incremental cost-based offers.

4. How frequently do I have to confirm that my current policy is still valid?

PJM Market Sellers with currently active fuel cost policies have an ongoing obligation to ensure that the policies conform with their fuel procurement practices. In addition, PJM Market Sellers are required to review the existing Fuel Cost Policy and confirm that it is still in accordance with PJM governing documents and Manual 15 at least 30 days prior to the Fuel Cost Policy expiration date.

5. Can I submit a new Fuel Cost Policy outside of the periodic review period?

Yes, Market Sellers may submit a Fuel Cost Policy outside of the periodic review period if;

- a. they have an approved Fuel Cost Policy currently in place and need to alter it in order to conform it to the provisions of Manual 15 or any applicable provisions of PJM's governing documents;
- b. any action by a governmental or regulatory agency external to the Market Seller results in a need for the Market Seller to change its method of fuel cost calculation;
- c. there are material changes to the Fuel Cost Policy;
- d. PJM requests the Market Seller to submit an updated Fuel Cost Policy;
- e. they will be offering a newly interconnected resource into PJM's Interchange Energy Market and do not have an existing Fuel Cost Policy for that resource;
- f. a unit is transferred to a new owner.

6. How do I submit a Fuel Cost Policy to PJM and the MMU?

Market Sellers are required to submit their Fuel Cost Policy in the Monitoring Analytics Member Information Reporting Application (MIRA)¹, or any other system(s) made available. Submission to MIRA, or other system(s) made available, is considered submission to PJM and the MMU.

7. What template should be used to submit Fuel Cost Policies?

Market Sellers should use the Fuel Cost Policy template that is provided on the Monitoring Analytics website, along with the MIRA login and user guide. (<http://www.monitoringanalytics.com/tools/tools.shtml>)

8. If I use the Market Monitor's Fuel Cost Policy Template, will it satisfy PJM's requirements?

Yes. However, PJM will ensure all Fuel Cost Policies meet the requirements in Schedule 2 of the Operating Agreement, and Manual 15: Cost Development Guidelines. PJM offers the following guidelines to Market Sellers when developing a Fuel Cost Policy using the Market Monitor's Templates:

- PJM requires Market Sellers to describe the process by which natural gas is procured and purchased Day-Ahead, Real-Time and Intraday.
- Acknowledgment if the opt-in/opt-out functionality for Intraday Offers will be used.
 - If the opt-in/opt-out election will change throughout the year, include a description of the process followed for both elections. When opting-in to Intraday Offers, the conditions that would trigger an update to your cost-based offer after the rebid period must be defined.
- Acknowledgment if the following adders are used in cost-based offers, and if so, describe the frequency of updates to these adders.
 - Emissions Allowances

¹ MIRA Log-in: <https://mira.monitoringanalytics.com/mira/pages/secure/dashboard.jsf>

9. If my Fuel Cost Policy passes the Market Monitors review, does it automatically receive approval from PJM?

No. PJM will independently review and approve all Fuel Cost Policies while taking into consideration the Market Monitor's input. PJM and the Market Monitor have complimentary but separate review processes. The Market Monitor reviews Fuel Cost Policies for market power purposes while PJM reviews Fuel Cost Policies for conformance to Schedule 2 of the Operating Agreement and Manual 15.

10. Does PJM wait to review the Fuel Cost Policy until after the MMU has reviewed the policy?

Yes. PJM will give the MMU an opportunity to work with the Market Seller on a Fuel Cost Policy, unless the Market Seller indicates that they no longer wish to work with the MMU. PJM will use any timely input and advice received by the MMU regarding the policy as part of the review process.

11. How will I know if my Fuel Cost Policy is approved, and when it becomes effective?

- For Fuel Cost Policies that are submitted during the periodic review process, PJM shall notify the Market Seller in writing, with a copy to the MMU, whether the Fuel Cost Policy is approved or rejected by no later than November 1, and will include the effective date of the Fuel Cost Policy in the notification. The effective date of the policy shall be November 1 or an agreed upon date between PJM and the Market Seller if the Market Seller wishes to implement the policy as soon as approved.
- For Fuel Cost Policies submitted outside the periodic review process, PJM will have thirty (30) Business Days for the initial review of a policy. For policies that are approved, PJM will include the effective date of the new fuel cost policy in the notification. The effective date of the policy shall be one day after approval or an agreed upon date between PJM and the Market Seller.

A PJM-approved policy will be in effect until it expires, is superseded, or is revoked.

12. What if my updated Fuel Cost Policy is not approved?

- If a Market Seller has an existing, previously approved Fuel Cost Policy, the Market Seller will continue to use the existing Fuel Cost Policy until such time that PJM notifies the Market Seller that the existing policy has been superseded or expired.
- If a Market Seller does not have an existing, previously approved Fuel Cost Policy, there is a material change to the previously approved Fuel Cost Policy which makes the policy no longer valid, or the previously approved Fuel Cost Policy has expired, the Market Seller may request to use the temporary cost offer methodology described in PJM's Operating Agreement, Schedule 2 until a new policy is approved by PJM. To submit a request to use the temporary cost offer methodology, please email FuelCostPolicyAnalysis@pjm.com.

13. What is the difference between rejection and immediate expiration of a Fuel Cost Policy?

PJM may reject a new or updated Fuel Cost Policy submitted for approval. A Market Seller will continue to use its currently effective Fuel Cost Policy if PJM rejects the new policy or requests a revised policy. Under these conditions, if there is no previously approved Fuel Cost Policy for a particular fuel, the Market Seller is not permitted to submit a non-zero cost-based offer consistent with that fuel type, unless such Market Seller has requested to use the temporary cost offer methodology for said fuel type.

A Fuel Cost Policy may be immediately expired by PJM if the Market Seller does not notify PJM and the MMU, in the form of updating their policy, of a material change to the calculation of their cost. For example, PJM may immediately expire a Fuel Cost Policy if a new lateral is installed to a pipeline that makes lower-priced gas available and the Market Seller utilizes this lower-priced gas to run the unit, but does not update their Fuel Cost Policy and/or their corresponding cost-based offers to reflect the lower cost.

14. Are external resources required to have an approved Fuel Cost Policy?

Yes, all Market Sellers who participate in the PJM Interchange Energy Market and submit a non-zero cost-based offer must either have a PJM-approved Fuel Cost Policy, or utilize the temporary cost offer methodology while working with PJM and the IMM on a new policy.

15. How do I formulate a Fuel Cost Policy for a unit that has recently transferred ownership (excluding sub-account transfers within the same company)?

When a generation resource is transferred between Market Sellers, the new Market Seller of the resource must reaffirm the current FCP on file or submit an updated Fuel Cost Policy for review and approval prior to submitting any cost-based offer. The new Market Seller may request to use the temporary cost offer methodology while working on a new policy.

16. What if a Market Seller submits an inaccurate cost-based offer?

Market Sellers shall be assessed a penalty if the cost-based offer is not in compliance with the Market Seller's PJM-approved Fuel Cost Policy, temporary cost offer methodology, or any other portion of Schedule 2 of the Operating Agreement.

17. Is using replacement costs for pricing fuel acceptable as a standard methodology?

Yes, PJM considers this acceptable under the proposed PJM Operating Agreement, Schedule 2.

18. For dual-fuel units, are Market Sellers required to submit separate Fuel Cost Policies?

Yes, Market Sellers are required to have a Fuel Cost Policy for each fuel type for which offers are submitted into Markets Gateway. Fuel Cost Policies for each fuel type can be supplied to PJM and the IMM as separate documents or be included in the same document.

19. Can gas pipeline penalties be included with a Market Seller's cost-based offer?

Gas pipeline penalties are not permitted to be included with a Market Seller's cost-based offer. Gas pipeline penalties, as referenced herein, are charges that are incurred for taking unauthorized gas in violation of an interstate pipeline and/or LDC tariff or contract. The penalty dollars are unknown at the time of the cost-based offer and therefore cannot be included. Additionally, allowing Market Sellers to include gas penalty charges in their cost-based offer, thus relying on unauthorized gas, puts the interstate pipeline and/or LDC distribution system at risk for failure. Higher commodity pricing as a result of market conditions is not the same as gas pipeline penalties.

20. Can gas pipeline balancing charges be included with a Market Seller's cost-based offer?

Gas balancing charges due to the sale of gas nominated & scheduled but not used cannot be included in cost-based offers. Gas pipeline storage, park and loan, or other similar tariff-based rate for gas balancing can be included in the cost-based offer once these expenses are incurred. Gas balancing charges due to a change in ownership also cannot be included.

21. Can the cost of ratable take gas be included with a Market Seller's cost-based offer?

Gas balancing charges from ratable take gas cannot be included in a Market Seller's cost-based offer. However, PJM will attempt to honor any enforced and verifiable ratable gas flow pipeline restriction submitted as part of PJM's dispatch instructions through either;

- a. a temporary exception to the unit's operating parameters (e.g. minimum run time) on its Parameter Limited Schedules in the Day-Ahead Energy Market; or
- b. a change to real-time values² in Markets Gateway after the close of the Day-Ahead Energy Market.

Units dispatched with ratable gas restrictions will be eligible for make-whole payments for energy in accordance with PJM's current settlement rules. Any gas pipeline penalties or gas balancing charges incurred by the unit during this period cannot be included in the Market Seller's cost-based offer.

22. Are Market Sellers responsible for providing ex-post documentation to support cost-based offers?

Yes. Market Sellers are required to maintain all documentation needed to reconstruct cost-based offers. The documentation includes but not limited to invoices, contracts, screenshots, instant messages, text messages, emails or recorded phone calls. This information may be requested by PJM or the MMU to verify the development of cost-based energy offers.

23. How should Emissions costs be documented as part of a Fuel Cost Policy?

Market Sellers should indicate in their Fuel Cost Policy whether or not they include Emissions in their cost-based offer and the frequency of update. The emissions section shall also indicate pricing source for allowances. Emissions costs should be calculated in accordance with Manual 15.

- Emissions Data Must be submitted to the Cost Offer Assumptions (COA) module in MIRA.

² For more information on real-time values see slides 26-36: <http://www.pjm.com/~media/committees-groups/committees/elc/postings/20160505-performance-assessment-hour-education-presentation.ashx>

24. Am I required to supply Emission documentation if my unit is a renewable type, self-scheduled, or is a price-taker?

All units that specify in their Fuel Cost Policy that they use non-zero Emissions adders in their cost offers are required to submit documentation of the calculation process. A self-scheduled unit could be taken over and dispatched by PJM, and would be made whole to a cost offer. Thus, the cost offer Emission components need to be documented. However, units such as windfarms and solar, that do not have Emission components in their cost offers, are not be required to submit Emissions documentation.

25. Am I required to supply Emissions documentation for each unit, or one example that applies to all units?

For each unit that has a different Emissions value, Market Sellers are required to submit separate Emission documentation. However, if an Emission calculation applies to a block of units, one sample calculation is sufficient. Templates for Emission costs are provided on the Fuel Cost Policy page on pjm.com.

(<https://pjm.com/markets-and-operations/energy/fuel-cost-policies.aspx>)

26. How will a unit be made-whole during settlement for an expired fuel-cost policy?

Market Sellers who have a Fuel Cost Policy expired by PJM will be provided a three (3) Business Day rebuttal period, starting from the date of expiration, to submit supporting documentation to PJM demonstrating that the expired Fuel Cost Policy accurately reflects the fuel source, transportation cost, procurement process used, applicable adders, or commodity cost for the generation resource such that the Fuel Cost Policy accurately reflects the Market Seller's fuel procurement practices and methodology for pricing fuel. During the rebuttal period, if the Market Seller does not have a PJM-approved Fuel Cost Policy and is not utilizing the temporary cost offer methodology, it may not submit a non-zero cost-based offer.

However, if upon review of the Market Seller's supporting documentation, PJM determines that the expired policy accurately reflects the Market Seller's actual methodology used to develop the cost-based offer that was submitted at the time of expiration, and that the Market Seller has not violated its Fuel Cost Policy, then PJM will refund to the Market Seller the penalty payments and make-whole the Market Seller via uplift payments for the time period for which the applicable Fuel Cost Policy had been expired and the generation resource was mitigated to its cost-based offer.

If during the expiration period the unit continues to offer on its price-based schedule, and the unit was offer capped during the rebuttal period, the unit would be made whole to the cost-based offer that would have applied during the cost capping. Otherwise, the unit would be paid according to the schedule they offered and were committed on during that period. In this case, no make-whole payments would apply and the penalty would be refunded.

A Market Seller must submit a cost-based schedule that is either equal to zero, or the temporary cost offer methodology calculation AND a cost-based schedule which reflects the calculation of the expired policy in order to be eligible for make-whole payments.

27. Where does a Fuel Cost Policy penalty show up on a PJM Settlement bill?

Two new billing line items have been added to support Fuel Cost Policy penalties and credits. Additional information on the penalty can be found in a presentation posted with the April 20, 2017 Markets Settlements Subcommittee materials. (<https://www.pjm.com/~media/committees-groups/subcommittees/mss/20170420/20170420-item-04-fuel-cost-policy-penalty-new-msrs-reports.ashx>)

28. How does Intraday Offers (IDO) impact my previously approved Fuel Cost Policy?

Fuel Cost Policies are required to define a unit's election to participate in Intraday Offers. The introduction of Intraday Offers enables Market Sellers to update their cost-based energy offers on an hourly basis to reflect actual costs. Hourly updates for offers may be submitted up to 65 minutes prior to the start of the Operating Hour. Market Sellers have the option to participate in Intraday Offers by describing their opt-in election in their Fuel Cost Policy, and defining the scenarios, conditions or triggers that warrant an updated cost-based offer. These triggers need to be auditable.

Sample Intraday Offers Opt-in Language:

(Market Seller) will opt-in to Intraday Offers for the unit(s) referenced in this Fuel Cost Policy. (Market Seller) will validate cost-based offers, and update their cost-based offer intraday if costs change from original cost input used to create the day-ahead cost offer. The Intraday validation will be completed within the time period beginning (HH:MM time-zone) and ending (HH:MM time-zone); *PJM recommends a one hour maximum time period*. Cost-based offers may be increased but must be decreased based on the updated commodity cost at the time of validation.

(Market Seller) will update the cost-based offer based on the following process: (*Describe Intraday validation and update process or refer to Monitoring Analytics template for guidance on update process*).

- Intraday Validation during specified time period – REQUIRED
- Secondary trigger, if applicable – NOT REQUIRED

(Market Seller) may also choose opt-in and update their cost-based offer based on defined auditable triggers, for example:

- Hot or Cold weather alerts;
- RTO load forecast greater than 125,000 MW in the winter months

For units that do not specify their Intraday Offer election (Opt-in, Opt-out, or Change election throughout the year) will, by default, be considered as Opt-out and are not permitted to update their offer intra-day.

29. How does FERC Order 831 (Offer Caps) impact my Fuel Cost Policy?

As part of the offer verification process, PJM is required to screen offers greater than \$1,000/MWh, ex-ante. More information about the offer verification screening and exception process is available on the [Energy Offer Verification](#) page on [pjm.com](#).

30. Whom do I contact with questions or to schedule a conference call with PJM?

Please contact FuelCostPolicyAnalysis@pjm.com with any Fuel Cost Policy related questions, or if you would like to schedule a conference call to discuss your Fuel Cost Policy in greater detail.

31. Do I need to document Variable Operations and Maintenance (VOM) Costs in my Fuel Cost Policy?

VOM is no longer handled in Fuel Cost Policies. VOM costs are submitted through a separate process. Please see the Maintenance Adder & Cost Submission Process section of the Fuel Cost Policies page for more information:

<https://pjm.com/markets-and-operations/energy/fuel-cost-policies.aspx>