






Fuel Cost Policy

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Members Committee
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Action Required	Deadline	Who May Be Affected
<p>Communicate proposed changes to the Fuel Cost Policy process and penalty calculations</p> 	<p>3/26/2020</p> 	<p>Market Sellers</p> 

Based on a few years of experience with the Fuel Cost Policy (FCP) process, there are opportunities for potential improvements to the rules and processes governing Fuel Cost Policies.

- ❑ KWA#3: Explore potential enhancements to Fuel Cost Policy rules. Initial review suggests the following categories for enhancements to PJM’s fuel cost policies:
 - ❑ Requirement for zero marginal cost offer units (e.g., wind and solar) to have Fuel Cost Policies;
 - ❑ Requirement for self-scheduled units to have Fuel Cost Policies;
 - ❑ Need for Market Sellers, on an annual basis, to confirm that their annual Fuel Cost Policy remains compliant;
 - ❑ Lack of a penalty exemption and/or safe harbor for minor violations in a Market Sellers’ Fuel Cost Policy, and/or lack of appropriate crediting mechanism for a market-seller’s self-report of a potential Fuel Cost Policy violation.

- Joint Stakeholder Package(Main Motion): Failed with 1.93 in favor and 3.07 opposed.
- PJM ICC Package (Alternative Motion): Passed with 3.57 in favor and 1.43 opposed

Proposed Changes	
Remove FCP annual review	X
Remove FCP requirement for zero marginal cost offer units	X
Remove Market Seller submission deadlines	X
Refine PJM/IMM review deadlines	X

Proposed Changes	
Remove Revocation Language	x
Allow PJM to expire approved FCPs	x
Temporary Fuel Cost Policy	x
Safe Harbor Provision	x
Penalty Calculation Components	
Market Seller Identified Error Factor (E)	0.25
Market Impact Factor (I)	1 or 0.10
Average Hourly LMP	Across duration of non-compliant offer
Average Hourly Available MW	Across duration of non-compliant offer
Market Impact Evaluation Period	Across duration of non-compliant offer

Full penalty (impact factor of 1) if:

- Unit clears DA or runs RT on cost-based offers AND is either
 - Paid DA/Balancing operating reserves or
 - Marginal in DA or RT on its cost based offer
- Or, unit fails TPS test for constraints
 - Unless unit running on price-based schedule due to passing the TPS test at the time of commitment
- Or, cost offer is above \$1,000/MWh

	MRC	MC
First Read	1.23.2020	
Endorsement	2.20.2020*	3.26.2020**

* **Note:** ‘Page turn’ review of manual and tariff changes prior to the MRC vote was completed at the MIC Special Session: Fuel Cost Policy on 1.29.2020

** **Note:** Manual 15 – Cost Development requires Members Committee endorsement and Board of Managers approval in accordance with Operating Agreement Schedule 2

Appendix

- Main Motion: Joint Stakeholder
 - Endorsement: 87%
 - Alternate Motion: PJM ICC
 - Endorsement: 81%
- *Second Alternate Motion: IMM package
- Not voted at the MIC but moved to be the second alternate at January MRC

$$\Sigma \text{Penalty}_{dh} = \frac{\min(d, 15)}{20} \times \text{LMP}_h \times \text{MWh}$$

where:

- d (days) = 1, if Market Seller corrects non-compliant offer after notification from PJM or the IMM
- LMP_h = Average hourly LMP on last day of non-compliant offer
- MWh = Average hourly available MW on last day of non-compliant offer

$$\Sigma \text{ Penalty}_{dh} = \frac{\min(d, 15)}{20} \times \text{LMP}_h \times \text{MW}_h \times E \times I$$

- LMP_h = Average hourly LMP **over duration of** non-compliant offer
- MW_h = Average hourly available MW **over duration of** non-compliant offer
- E (Market Seller Identified Error) = Discount equal to 0.25 if non-compliant offer is reported by Market Seller without inquiry from PJM or IMM.
- I (Market Impact Factor) = Discount equal to 0.10 if non-compliant offer did not have potential to impact market at any time during period of non-compliance