



## Cost Development Subcommittee STATUS REPORT

11/16/2011

This status report documents progress made since last reported on the issue(s) charged to this PJM stakeholder group.

### 1. **Generator Cost Development: Other Opportunity Costs** [\(issue tracking\)](#)

#### A. **Issue Description:**

This issue concerns the development of additional Opportunity Cost Proposals. FERC requested that PJM evaluate all possible opportunity costs that are just and reasonable to be used in the cost offer. [FERC issued an order on non-regulatory opportunity cost on October 6, 2011.](#) Stan Williams, PJM explained that the order accepted PJM's revisions to the OA and OATT with the exception of the 50/50 outage rule. FERC required PJM to issue a revised filing in the next 30 days.

#### B. **Issue Status**

Complete.

#### C. **Target Completion/Progress update:**

PJM filed revisions October 28, 2011 for an effective date of April 16, 2011.

#### D. **Action Requested:**

None at this time.

### 2. **CTs and CCs Overhaul cost recovery**

#### A. **Issue Description:**

At the October 17, 2011 CDS Hal Siegrist, Genon, brought a Problem Statement to clarify Combustion Turbines (CTs) and Combined Cycles (CCs) Overhaul Cost Recovery.

This proposal brings forward manual language changes for Manual 15: Cost Development Guidelines to remove the inclusion of overhaul and inspection costs from CTs and CCs in the variable operating and maintenance cost aligning the treatment of these types of units with other generation types.

CDS is evaluating manual language to address the conflict between M15 and the tariff rules so that overhaul costs would not be included in VOM. Currently CDS is addressing VOM ([Issue Tracking](#)) definition, but that work will not be completed in time for the next Base Residual Auction (BRA) in May 2012.

The CDS reviewed proposed manual language and the collaborative solution matrix at the November 14, 2011 meeting but was unable to come to a consensus proposal. CDS is forwarding proposed manual language to the MRC as a Tier 2 Proposal. CDS members were polled on the proposed manual language; 15 were in favor, 4 were against, and 0 abstained. CDS members were also polled on leaving the manual as is; 3 were in favor, 9 were against, and 0 abstained. The IMM opinion supported the proposed changes.

**B. Issue Status**

Evaluation in Progress.

**C. Target Completion:**

March 2012

**D. Action Requested:**

None at this time. Endorsement will be sought at the December MRC.

**3. Non Regulatory Opportunity Cost: Manual 15 language**

**A. Issue Description:**

This change to Manual 15 incorporates previously approved concepts for Non-Regulatory and Energy Market Opportunity Costs. These changes have been approved by FERC and need to be incorporated into the Cost Development Guidelines. Opportunity Cost in Manual 15 is the value associated with a specific generating unit's lost opportunity to produce energy during a higher valued period of time occurring within the compliance period. There are two types of opportunity costs in Manual 15:

1. Energy Market Opportunity Cost is applicable to the cost offer when a specific generating unit only has a limited number of available run hours due to limitations imposed on the unit by Applicable Laws and Regulations, for example, restrictions do to emissions limitations. (Approved by FERC on 10/25/2010)
2. Non-Regulatory Opportunity Cost is applicable to the cost offer when specific generating unit only has a limited number of starts or available run hours resulting from (i) the physical equipment limitations of the unit, for up to one year, due to original equipment manufacturer



recommendations or insurance carrier restrictions, (ii) a fuel supply limitation, for up to one year, resulting from an event of force majeure (Approved by FERC on 10/6/2011)

There are two methods for calculating opportunity cost in Manual 15: the long term method (up to one year) and the short term method (less than 30 days). The long term method was approved and is already in Manual 15. Short Term method was approved by FERC on 10/6/2011 and is included in this revision. The short term method removes intra-month fuel volatility and uses Day Ahead prices for fuel and electricity in the calculation.

**B. Issue Status**

Awaiting Senior Committee Approval

**C. Progress Update**

Manual language was approved at the October 12, 2011 CDS.

**D. Action Requested:**

Endorsement will be sought at the December MRC.

**4. No Load Cost ([issue tracking](#))**

**A. Issue Description:**

This issue concerns the current definition of No Load costs. The No Load definition in Manual 15 lacks sufficient clarity to properly compute and evaluate costs. Additionally, the Manual provides no information on how No Load costs are computed for a combined-cycle unit though this is provided for every other unit type.

This change to No Load language in Manual 15 adds clarity and examples to aid participants in the development of their no load costs. This change adds guidance to the appropriate no load calculation that should be used for block loaded or unit offers that use bid slope. It also creates a new rule that in instances when a no-load cost may have to be adjusted to ensure that the slope of the generator offer curve is monotonically increasing, the No-Load cost adjustment is limited to a maximum difference of \$1/MW between the unit's first and second incremental cost offers.

**B. Issue Status**

Evaluation in Progress.

**C. Progress Update**

CDS endorsed manual language at the November 14, 2011 meeting.

**D. Action Requested:**

None at this time. Endorsement will be sought at the December MRC.

5. **VOM ([issue tracking](#))**

**A. Issue Description:**

This issue concerns the current definition of incremental or short run marginal costs in Manual 15 "Cost Development Guidelines" clarification. The cost development guidelines do not clearly delineate what components of variable operations and maintenance (VOM) are incremental and should be included in energy offers. Some components of VOM may currently be not recovered in the appropriate market (capacity vs. energy).

**B. Issue Status**

On Hold

**C. Target Completion:**

On Hold until May 2012.

**D. Progress Update:**

On hold.

**E. Action Requested:**

None at this time.

6. **Unit Types not addressed by Manual 15 ([issue tracking](#))**

**A. Issue Description:**

This issue concerns lack of cost development guidelines for non-fossil steam units (biomass or solid waste), run-of-river hydroelectric units, wind units, solar units or energy storage units. There is no adequate basis currently to evaluate the cost based offers of these units. A process to clearly delineate the actual components of cost for these unit types needs to be developed.

**B. Issue Status**

Evaluation in Progress.

**C. Progress Update**

CDS will consider draft manual language for solid waste and biomass units at the November 14, 2011 meeting.

**D. Action Requested:**



None at this time.

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