

# The Definition of Costs and Cost Recovery

Cost Development  
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# Incremental Cost Background

- **Variable Operation and Maintenance Costs should include only short run incremental costs**
- **PJM Operating Agreement – Schedule 2 provides for generators to include the following components of cost:**
  - **Incremental fuel cost**
  - **Incremental maintenance cost**
  - **Incremental labor cost; and**
  - **Other incremental operating costs**



# Avoidable Cost Rate (ACR) Rules

- **Currently, any cost includable in offers to the PJM Energy Market is *not* includable in an Avoidable Cost Rate, per Tariff:**
- **PJM Tariff Attachment DD, Section 6.8 – “For the purpose of determining an Avoidable Cost Rate, avoidable expenses are incremental expenses directly required to operate a Generation Capacity Resource that a Generation Owner would not incur if such generating unit did not operate in the Delivery Year or meet Availability criteria during Peak-Hour Periods during the Delivery Year.”**
- **“For the purpose of determining an Avoidable Cost Rate, avoidable expenses shall exclude variable costs recoverable under cost-based offers to sell energy from operating capacity on the PJM Interchange Energy Market under the Operating Agreement.”**



# Types of Cost

- **Short run marginal cost**
  - **Costs that are incurred directly as a result of operating the unit. For example:**
    - **Fuel**
    - **Emission Allowances**
    - **Consumables**
- **Avoidable cost or going forward cost (ACR)**
  - **Costs that would be avoided if the unit did not operate for a year. For example:**
    - **Combustion inspections**
    - **Major Inspection**



# Types of Costs

- **Fixed Cost**
  - **Investments (APIR). For example:**
    - **Turbine**
    - **SCR**



# Issue

- **Cost types need to be mapped to:**
  - **Energy offers in Manual 15**
  - **Capacity offers (ACR)**
  - **Capacity offers (APIR)**
- **Incremental maintenance needs to be defined clearly in Manual 15.**



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