



Fuel Cost Policy Requirements and Cost-Based Offers

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- A Fuel Cost Policy describes the method of calculation of a generation resource's incremental costs (systematic and verifiable)
- A PJM-approved Fuel Cost Policy is required for generation resources, including external capacity and energy-only resources, that submit a cost-based offer in the Energy Market
- If a Market Seller does not have an approved Fuel Cost Policy or submits a cost-based offer not in accordance with an approved Fuel Cost Policy, the Market Seller will be subject to a penalty
- Fuel Cost Policy guidelines are described in Manual 15 and Schedule 2 of the Operating Agreement

Fuel Cost Policies include:

- Description method of calculating fuel costs
- Indicating whether contract or spot prices
- Include method for commodity, handling and transportation costs
- Heat Input (incremental, no load and start) and Frequency of update
- Performance Factor (if applicable)
- If adders are included (Emissions, Maintenance, 10% Adder)
- Any other incremental costs applicable

Fuel Cost Policy Describes

- Process to create Cost-Based Offer
- Opt-Out of Intraday Offers policy must include
 - Day-Ahead process
 - Rebid process (optional)
- Opt-In to Intraday Offers policy must include
 - Day-Ahead process
 - Rebid process (optional)
 - One daily Intraday cost-based offer validation
 - Threshold allowable for secondary validation trigger
- Day-Ahead offer can vary hourly opt-in or opt-out, however, if you choose to vary hourly must describe the process

A resource that wishes to bid in a cost of zero shall include the following information in its Fuel Cost Policy:

- Company and Unit Contact Information
- A statement that the unit will not offer greater than \$0 for start-up, no load, and incremental energy

Schedule 2 of Operating Agreement

- Section 1.1 – Permissible components of Cost-based Offers
 - For all generating units
 - Incremental fuel cost
 - Incremental maintenance cost
 - No-load cost during period of operation
 - Incremental labor cost
 - Emission allowances/adders
 - Maintenance Adders
 - Ten percent adder
 - Other incremental operating costs

- Cost-based offers may be used to mitigate the potential exercise of market power
- The Three Pivotal Supplier (TPS) test is used to determine if market power exists
 - Examines the concentration of ownership of the supply compared to the level of demand
 - General concept is to control a constraint
 - If not enough MWs available to satisfy a constraint without using top two suppliers' output plus output of supplier being tested, then those three suppliers are jointly pivotal
 - Generators brought on for constraint control that fail TPS test are dispatched on lower of cost or price offer

Appendix

- Reference Material
 - [Manual 15 – Cost Development Guidelines](#)
 - Schedule 2 of Operating Agreement
 - Fuel Cost Policy Homepage
 - <http://www.pjm.com/markets-and-operations/energy/fuel-cost-policies.aspx>
 - Fuel Cost Policy FAQ's
 - <http://www.pjm.com/-/media/markets-ops/energy/fuel-cost-policy/fuel-cost-policy-faqs.ashx?la=en>

Section 2.1 - Schedule 2 of Operating Agreement

A Market Seller may only submit a non-zero cost-based offer into the PJM Interchange Energy Market for a generation resource if it has a PJM-approved Fuel Cost Policy consistent with each fuel type for such generation resource.

Section 5.1 – Penalties

If upon review of a Market Seller’s cost-based offer, PJM determines that the offer is not in compliance with the Market Seller’s PJM-approved Fuel Cost Policy or this Schedule 2 and the Market Monitoring Unit agrees with that determination, or the Market Monitoring Unit determines that the offer is not in compliance with the Market Seller’s PJM-approved Fuel Cost Policy and PJM agrees with the Market Monitoring Unit’s determination, or the Market Seller does not have a PJM-approved Fuel Cost Policy, or PJM determines that any portion of the cost-based offer is not in compliance with this Schedule 2, the Market Seller shall be subject to the following penalty