

Fuel Cost Policies

MIC FCP Special Session
November 2, 2018

Catherine Tyler
Joel Romero Luna



Monitoring Analytics

Cost Development Subcommittee (CDS)

- The CDS is “responsible for developing, reviewing and recommending to the MRC standard procedures for calculating the costs of products or services provided to PJM when those products or services are required to be provided to PJM at a cost-based rate.”
<https://www.pjm.com/committees-and-groups/subcommittees/cds.aspx>
- Fuel cost policy rules are the responsibility of the CDS.
- Many issues with cost offer development rules can be resolved at the CDS.

Cost Development Guidelines – PJM Pool Era

- **Transactions in the PJM power pool were made based on cost-based offers.**
- **The Cost Development Task Force (now Cost Development Subcommittee) was established in October 1975 by the PJM Operating Committee.**
- **The primary responsibility of the Task Force was to “develop, review, and accept standard procedures as required for calculating the components of incremental cost necessary for economic scheduling, dispatch, and accounting.”**

Cost Development Guidelines – PJM Pool Era

- **The cost development guidelines were created by the CDTF decades before the inception of the PJM Market and before price-based offers.**
- **The PJM Cost Development Guidelines contained standard policies for the development of:**
 - **Incremental Heat Input**
 - **No Load Cost**
 - **Performance Factor**
 - **Fuel Cost**
 - **Maintenance Cost**
 - **Start Cost**

Cost Development Guidelines – PJM Pool Era

- **All components except for the calculation of the “basic fossil fuel cost” had a standard policy in the cost development guidelines.**
- **The total fuel related costs (TRFC) was equal to:**
 - **Basic fossil fuel cost +**
 - **Other fuel related costs +**
 - **Maintenance factor**
- **Other fuel related costs and the maintenance factor were calculated using FERC accounts.**
- **Other costs (e.g. emission allowances) were also included.**

Fuel Cost Policies – PJM Pool Era

- **Cost Development Guidelines:**
 - **“Each company will be responsible for establishing its own method of calculating delivered fossil fuel cost, limited to inventoried cost, replacement cost, or combination thereof, that reflect they way fuel is actually purchased or scheduled for purchase”.**
 - **Fuel cost policies were accepted by the OC.**
 - **Fuel cost policies were published in Manual 15.**

Fuel Cost Policies – PJM Market Era

- **In PJM, unit owners have to submit cost-based offers and may submit price-based offers.**
- **Cost-based offers are used by PJM to mitigate the exercise of market power by Market Sellers that fail the three pivotal supplier test.**
- **Market Sellers are responsible for the development of cost-based offers.**

Fuel Cost Policies – PJM Market Era

- In PJM, the IMM/MMU does not calculate cost-based offers for Market Sellers. Market Sellers calculate cost-based offers based on their approved Fuel Cost Policies, the PJM Tariff and the Cost Development Guidelines (PJM Manual 15).
- Fuel Cost Policy is the document that describes the “method used to price fuel for calculation of the Market Seller’s cost-based offers for a generation resource.”

New (2017) Fuel Cost Policy Rules

- **Prior to 2017, only the IMM reviewed and approved fuel cost policies. As part of the Offer Flexibility Docket (ER16-372), PJM began actively reviewing and approving fuel cost policies.**
- **New rules include formal deadlines and penalties for failure to comply. Every generator now has a fuel cost policy.**
- **New rules created departure from tariff defined roles:**
 - **PJM role as tariff administrator.**
 - **IMM role as market monitor.**

IMM Fuel Cost Policy Review

- **PJM Market Monitoring Plan:**
- **“Determinations about market power are the responsibility of the Market Monitoring Unit under Tariff, Attachment M – Appendix and under this Attachment M. The Market Monitoring Unit shall review all proposed sell offers for a determination of whether they raise market power concerns.”**

IMM Fuel Cost Policy Review

- **“The Market Monitoring Unit shall make a determination about whether offer or cost inputs or a decision not to offer a committed resource is physical or economic withholding or otherwise involves a potential exercise of market power.”**
- **“The Market Monitoring Unit and market participants shall, in accordance with the applicable procedures and as set forth elsewhere in the Tariff, attempt to come to agreement about the level or value of offers or cost inputs.”**

IMM Fuel Cost Policy Review

- **IMM Standards:**
 - **Fuel cost policies must reflect the short run marginal cost of fuel.**
 - **Fuel cost policies must be algorithmic, verifiable and systematic.**
 - **Fuel cost policies must result in an accurate fuel cost.**

IMM Fuel Cost Policy Review

- **Algorithmic:** Must use a set of defined, logical steps.
- **Verifiable:** Must provide a fuel price that can be calculated by the IMM after the fact with the same data available to the Market Seller at the time the decision was made and documentation for that data from a public or a private source.
- **Systematic:** Document a standardized method or methods for calculating fuel costs including objective triggers for each method.

Dual IMM/PJM Review

- Typically, the IMM reviews policies first, providing feedback to participant and input to PJM.
- The IMM provides written feedback to participants.
- When the participant addresses the IMM concerns, the policy is passed.
- When the IMM and the participant do not reach agreement, the policy is failed.
- The policy status is communicated to PJM.
 - In addition, the reasons for failed policies are communicated to PJM in writing.

2018 Annual Fuel Cost Policy Review

PJM Status	IMM Status			Total
	Pass	Submitted	Fail	
Approved	1,083	173	75	1,331
Rejected	0	0	0	0
Under Review	0	0	0	0
Submitted	0	0	0	0
Total	1,083	173	75	1,331

- **The IMM is reviewing fuel cost policies for 173 units.**
- **The expected outcome of the pending policies is that 75 will pass and 96 will fail.**
- **The expected final outcome is: 87% pass and 13% fail.**
- **An improvement from last year when 84% passed and 16% failed.**

Issues in Failed Natural Gas Policies

- **Unverifiable cost estimates**
- **Use of available market information that results in inaccurate expected costs**
- **Use of unsupported natural gas hubs (indices)**
- **Use of unsupported adders**
- **Unclear implementation of hourly offers and intraday offer updates**



Tariff Standards Not Met in Some Policies

- **Accuracy:** Reflect applicable costs accurately;
- **Procurement Practices:** Provide information sufficient for the verification of the Market Seller's fuel procurement practices;
- **Fuel Contracts:** Reflect the Market Seller's applicable commodity and/or transportation contracts (to the extent it holds such contracts);
- **Adders:** Provide a detailed explanation of the basis for and reasonableness of any applicable adders included in determining fuel costs in accordance with PJM Manual 15.

Monitoring Analytics, LLC

2621 Van Buren Avenue

Suite 160

Eagleville, PA

19403

(610) 271-8050

MA@monitoringanalytics.com

www.MonitoringAnalytics.com

