

# Fuel Cost Policy and Hourly Offers Filing



Jeff Schmitt  
Manager, Market Analysis  
Market Implementation Committee  
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The February 3<sup>rd</sup> FERC ruling on Hourly Offers accepted a significant portion of what PJM filed, with some items to be modified to support the filing:

- Several sections of Manual Language (M15) to be put into the Tariff (Operating Agreement) and some modifications to accommodate FERC order:
  - **Standard of Review & when non-compliant**
  - **Penalty termination details, penalty allocation, and addition of a rebuttal period**
  - **Timeline for review of new and existing resources**
  - **Components of cost clarification**
  - **Dispute resolution clarification**

The FERC ruling affirmed:

- PJM's standard of review
  - **Verifiable & systematic, not algorithmic**
- PJM's final authority to approve Fuel Cost Policies
- Penalty structure
- PJM Operating Agreement prohibits Maintenance Adders and Additional Labor Costs from being recovered in Avoided Cost Rates

What does that mean?

- A series of steps that are followed to get to the creation of the cost-based offer
- These steps should have thresholds and triggers associated with them
- The steps should be able to be followed logically
- Explanations for liquid and poor liquidity markets should be defined
- An auditor should be able to follow the steps and arrive at the cost-based offer

- PJM Compliance Filing due March 6, 2017
  - Effective Date for Fuel Cost Policies, May 15, 2017
  - Implementation Date of Hourly Offers, November 1, 2017
- Manual 15 Changes
  - PJM MIC Special Session, February 21, 2017
  - MRC First Read, February 23,
  - MRC / MC Endorsement, March 23
- Fuel Cost Policy Annual Review Process June 5 – November 1, 2017

- Timeline
- Transition Plan & Implementation Date
- FAQ's
- Manual 15 Language
- Tariff Language
- Variable Operations and Maintenance (VOM) & Emissions

- PJM is managing the Fuel Cost Policy review and approval process
- PJM will use input and advice from the MMU during the review of all Fuel Cost Policies
- This input and advice will come in the form of a memo to the Market Seller and PJM, providing specific feedback on items of concern
- PJM will use this information in discussions with Market Seller to work through the review and approval process.
- Fuel Cost Policies will be submitted to MIRA
- MIRA file transfer is daily, if an immediate review is required please submit to MIRA and email to the following: [FuelCostPolicyAnalysis@pjm.com](mailto:FuelCostPolicyAnalysis@pjm.com)

During review process:

- PJM is going to work on turning around reviews as fast as possible given the number of FTE's available along with coordination with Market Sellers and input from the MMU
- PJM is going to ask Market Sellers to return information and/or submit new policies, as soon as possible but no longer that (5) Business Days from the request date. The quicker you get it to us the sooner we can review it.
- Ultimately, by the end of the transition period the goal is to have every Market Seller with a PJM-approved Fuel Cost Policy
- If a Market Seller has not submitted a policy by March 15, 2017, we cannot guarantee approval before the required transition date.

- The FAQ's are posted with the meeting materials and will be updated throughout the process. We will provide a link to all Market Sellers to be able to obtain the most recent version.

- MIRA (in Fuel Cost Policy shell)
- Submit Fuel Cost Policy
- In same shell (so it retains FCP number)
  - Numerical Example demonstrating creation of cost based offer (usually an excel file), this should include all the components of the cost based offer.
- Emissions and VOM will be reviewed but the annual review of the policies will occur during the annual review
- The goal by May 15<sup>th</sup> is to ensure all Market Sellers have an approved Fuel Cost Policy

- PJM does not plan to change the VOM rules through this filing
- FERC reaffirmed that PJM's rules allowed Incremental Maintenance costs to be included in cost based offers
- PJM acknowledges, the MMU has a different interpretation from PJM on incremental maintenance costs.
- PJM interprets the Incremental Maintenance and VOM according to governing documents
- PJM will bring a problem statement forward to discuss the issue at April MIC

- Market Sellers are required to have an approved Fuel Cost Policy for each fuel type, otherwise they are subject to a penalty for not having a PJM approved Fuel Cost Policy.
- Dual-fuel units are not required to submit cost-based offers for each fuel type.
- Market Sellers are only required to have one cost-based offer available for that unit, even if it is dual-fuel, this requirement is delineated in Manual 11

- A Fuel Cost Policy is a document that describes how a Market Seller procures fuel used in the creation of their cost-based offer in accordance with Schedule 2 of the Operating Agreement and Manual 15.
- Fuel Cost Policies should not include how a unit is bid into PJM through Markets Gateway
- Do not use triggers within the gas market to describe how you would bid your unit (bidding strategies are not part of a Fuel Cost Policy)