

## Fuel Cost Policy FAQs

As a result of the Federal Energy Regulatory Commission's approval of PJM's Hourly Offers filing in Docket No. ER16-372-002 on February 3, 2017, all Market Sellers must have a PJM-approved Fuel Cost Policy for each fuel type that they enter into the Day-Ahead and Real-Time Energy Market.

### 1. Who is required to have an approved Fuel Cost Policy

Market Sellers that offer a generation resource, including external capacity and energy-only resources, **and** submit a cost-based offer in the PJM Interchange Energy Market must have a PJM-approved Fuel Cost Policy consistent with fuel type in accordance with Manual 15, and the Operating Agreement, Schedule 2.

### 2. Do I have to submit a new Fuel Cost Policy on an annual basis?

PJM Market Sellers are required by June 15 of each year to submit either;

- a. a confirmation that the existing Fuel Cost Policy is still in accordance with PJM governing documents and Manual 15; or
- b. an updated Fuel Cost Policy with requested changes.

### 3. Can I submit a new Fuel Cost Policy outside of the annual review period?

Yes, Market Sellers may submit a Fuel Cost Policy outside of the annual review period if;

- a. they have an approved Fuel Cost Policy currently in place and need to alter it in order to conform it to the provisions of Manual 15 or any applicable provisions of PJM's governing documents;
- b. any action by a governmental or regulatory agency external to the Market Seller results in a need for the Market Seller to change its method of fuel cost calculation;
- c. there are material changes to the Fuel Cost Policy;
- d. PJM requests the Market Seller to submit an updated Fuel Cost Policy;
- e. they will be offering a newly interconnected resource into PJM's Interchange Energy Market and do not have an existing Fuel Cost Policy for that resource;
- f. a unit is transferred to a new owner.

Additional details on submission outside the annual review period can be found in Manual 15, Section 2.3.1.2

### 4. How do I submit a Fuel Cost Policy to PJM and the MMU?

Market Sellers are required to submit their Fuel Cost Policy in the Monitoring Analytics Member Information Reporting Application (MIRA)<sup>1</sup>, or any other system(s) made available. Submission to MIRA, or other system(s) made available, is considered submission to PJM and the MMU.

---

<sup>1</sup> MIRA Log-in: <https://mira.monitoringanalytics.com/mira/pages/secure/dashboard.jsf>

**5. What template should be used to submit Fuel Cost Policies?**

Market Sellers should use the Fuel Cost Policy template that is provided on the Monitoring Analytics website, along with the MIRA login and user guide. (<http://www.monitoringanalytics.com/tools/tools.shtml>)

**6. If I use the Market Monitor's Fuel Cost Policy Template, will it satisfy PJM's requirements?**

Yes. However, PJM will ensure all Fuel Cost Policies meet the requirements in Schedule 2 of the Operating Agreement, and Manual 15: Cost Development Guidelines. PJM offers the following guidelines to Market Sellers when developing a Fuel Cost Policy using the Market Monitor's Templates:

- PJM requires Market Sellers to describe the process by which natural gas is procured and purchased Day-Ahead, Real-Time and Intraday.
- Acknowledgment if the opt-in/opt-out functionality for Intraday Offers will be used.
  - If the opt-in/opt-out election will change throughout the year, include a description of the process followed for both elections. When opting-in to Intraday Offers, the conditions that would trigger an update to your cost-based offer after the rebid period must be defined.
- Acknowledgment if the following adders are used in cost-based offers, and if so, describe the frequency of updates to these adders.
  - Variable Operations & Maintenance (VOM) Costs
  - Emissions Allowances
  - 10% Adder

**7. If my Fuel Cost Policy passes the Market Monitors review, does it automatically receive approval from PJM?**

No. PJM will independently review and approve all Fuel Cost Policies while taking into consideration the Market Monitor's input. PJM and the Market Monitor have complimentary but separate review processes. The Market Monitor reviews Fuel Cost Policies for market power purposes while PJM reviews Fuel Cost Policies for conformance to Schedule 2 of the Operating Agreement and Manual 15.

**8. Does PJM wait to review the Fuel Cost Policy until after the MMU has reviewed the policy?**

Yes. PJM will give the MMU an opportunity to work with the Market Seller on a Fuel Cost Policy, unless the Market Seller indicates that they no longer wish to work with the MMU. PJM will use any timely input and advice received by the MMU regarding the policy as part of the review process.

**9. How will I know if my Fuel Cost Policy is approved, and when it becomes effective?**

- For Fuel Cost Policies that are submitted during the annual review process, PJM shall notify the Market Seller in writing, with a copy to the MMU, whether the Fuel Cost Policy is approved or rejected by no later than November 1, and will include the effective date of the Fuel Cost Policy in the notification. The effective date of the policy shall be November 1 or an agreed upon date between PJM and the Market Seller if the Market Seller wishes to implement the policy as soon as approved.
- For Fuel Cost Policies submitted outside the annual review process, PJM will have thirty (30) Business Days for the initial review of a policy. For policies that are approved, PJM will include the effective date of the new fuel cost policy in the notification. The effective date of the policy shall be one day after approval or an agreed upon date between PJM and the Market Seller.

A PJM-approved policy will be in effect until it expires, is superseded, or is revoked.

**10. What if my updated Fuel Cost Policy is not approved?**

- If a Market Seller has an existing, previously approved Fuel Cost Policy, the Market Seller will continue to use the existing Fuel Cost Policy until such time that PJM notifies the Market Seller that the existing policy has been superseded or revoked.
- If a Market Seller does not have an existing, previously approved Fuel Cost Policy, there is a material change to the previously approved Fuel Cost Policy which makes the policy no longer valid, or the previously approved Fuel Cost Policy has been revoked, Market Sellers are not permitted to submit non-zero cost-based offers into the PJM energy markets and will be assessed a penalty as described in PJM's Operating Agreement, Schedule 2.

**11. What is the difference between rejection and revocation of a Fuel Cost Policy?**

PJM may reject a new or updated Fuel Cost Policy submitted for approval. A Market Seller will continue to use its currently effective Fuel Cost Policy if PJM rejects the new policy or requests a revised policy. Under these conditions, if there is no previously approved Fuel Cost Policy for a particular fuel, the Market Seller is not permitted to submit a non-zero cost-based offer consistent with that fuel type, and a penalty will be assessed as described in PJM Operating Agreement, Schedule 2.

A Fuel Cost Policy may be revoked by PJM if the Market Seller does not notify PJM and the MMU, in the form of updating their policy, of a material change to the calculation of their cost. Reasons for revocation may include, but are not limited to, fraud or gross misrepresentation. For example, PJM would revoke a Fuel Cost Policy if a new lateral is installed to a pipeline that makes lower-priced gas available and the Market Seller utilizes this lower-priced gas to run the unit, but does not update their Fuel Cost Policy and/or their corresponding cost-based offers to reflect the lower cost.

**12. Are external resources required to have an approved Fuel Cost Policy?**

Yes, all Market Sellers who participate in the PJM Interchange Energy Market and submit a cost-based offer must have a PJM-approved Fuel Cost Policy.

**13. How do I formulate a Fuel Cost Policy for a new unit?**

An initial preliminary Fuel Cost Policy must be submitted no later than 45 days prior to the Market Seller submitting a cost-based offer in the PJM Interchange Energy Market. Within ninety (90) days of the commercial operation date, the Market Seller must submit an updated Fuel Cost Policy for review and approval reflecting actual commercial operation data.

- All new units must have a PJM approved interim Fuel Cost Policy approved 45 days prior to injecting MWs into the PJM system.
- PJM recommends that the unit owner submit an interim zero cost Fuel Cost Policy during the construction and testing phase when new resources are not dispatchable and may only self-schedule their unit. A zero marginal cost policy template is available on Monitoring Analytics website. ([http://www.monitoringanalytics.com/tools/docs/Zero\\_Marginal\\_Cost\\_Policy\\_Template\\_20170711.docx](http://www.monitoringanalytics.com/tools/docs/Zero_Marginal_Cost_Policy_Template_20170711.docx))
- New units may use a PJM-approved interim Fuel Cost Policy for the time period up to 90 days after the unit's commercial operation date. This interim policy will include preliminary operating values for heat rate and all applicable adders, and describe how the Market Seller purchases fuel. The interim policy must be submitted to PJM for approval no later than 45 days prior to submitting a non-zero cost-based offer in Markets Gateway.
- Within 90 days after commercial operation, Market Sellers must submit an updated Fuel Cost Policy that reflects actual operational data to PJM for approval.

For additional details, see the PJM Operating Agreement, Schedule 2, Section 2.2.a.

**14. How do I formulate a Fuel Cost Policy for a unit that has recently transferred ownership (excluding sub-account transfers within the same company)?**

When a generation resource is transferred between Market Sellers, the new Market Seller of the resource must reaffirm the current FCP on file or submit an updated Fuel Cost Policy for review and approval prior to submitting any cost-based offer. Failure to have an approved Fuel Cost Policy prior to entering a cost-based offer into the energy market, even a \$0 offer, will result in a penalty.

**15. What costs can be included in a unit's Maintenance Adder?**

Maintenance Adders are calculated as the 10 or 20 year average cost of a unit's maintenance history, or all available actual maintenance history if a unit has less than 10 years of maintenance history. Only expenses incurred as a result of electric production qualify for inclusion. The Maintenance Adder should be reviewed (and updated if changed) at least annually. For more information on what costs can be included, please refer to Manual 15, Section 2.6.1.

**16. How do I formulate maintenance costs for a new unit, an immature unit, or a unit that does not have at least 10 years of historical operating data?**

Maintenance Adders are calculated as the 10 or 20 year average cost of a unit's maintenance history, or all available actual maintenance history if a unit has less than 10 years of maintenance history. For more information on new or immature units, please refer to Manual 15, Section 2.6.7.

**17. What costs can be included in a unit's Operating Cost Adder?**

The Operating Cost component of TFRC may be calculated based on a fixed or rolling average of values from one to five years in length, reviewed (and updated if changed) annually, or a rolling average from twelve to sixty months in length, reviewed (and updated if changed) monthly. Both the term and the frequency of the Operating Cost calculation shall be included in the Market Seller's Fuel Cost Policy. Allowable Operating Cost include lubricants, chemicals, Limestone, Trona, Ammonia, acids, caustics, water injection, and demineralizers. Operating Cost also include variable Title V and other applicable emissions fees.

**18. What if a Market Seller requires more than five (5) days to provide additional information requested during a Fuel Cost Policy review?**

Market Sellers shall have five (5) Business Days to provide additional documentation or information for any request from PJM or the MMU. If the Market Seller does not believe it can provide the information within five (5) Business Days, they can request from PJM an alternative deadline for submission of the data no later than one (1) Business Days prior to the due date for the additional data. PJM must approve all requests to extend the deadline.

**19. What if a Market Seller submits an inaccurate cost-based offer?**

Market Sellers shall be assessed a penalty if the cost-based offer is not in compliance with the Market Seller's PJM-approved Fuel Cost Policy or Schedule 2 of the Operating Agreement.

**20. Is using replacement costs for pricing fuel acceptable as a standard methodology?**

Yes, PJM considers this acceptable under the proposed PJM Operating Agreement, Schedule 2.

**21. For dual-fuel units, are Market Sellers required to submit separate Fuel Cost Policies?**

Yes, Market Sellers are required to have a Fuel Cost Policy for each fuel type for which offers are submitted into Markets Gateway.

**22. Can gas pipeline penalties be included with a Market Seller's cost-based offer?**

Gas pipeline penalties are not permitted to be included with a Market Seller's cost-based offer. Gas pipeline penalties, as referenced herein, are charges that are incurred for taking unauthorized gas in violation of an interstate pipeline and/or LDC tariff or contract. The penalty dollars are unknown at the time of the cost-based offer and therefore cannot be included. Additionally, allowing Market Sellers to include gas penalty charges in their cost-based offer, thus relying on unauthorized gas, puts the interstate pipeline and/or LDC distribution system at risk for failure. Higher commodity pricing as a result of market conditions is not the same as gas pipeline penalties.

**23. Can gas pipeline balancing charges be included with a Market Seller's cost-based offer?**

Yes. Gas pipeline storage, park and loan, or other similar tariff-based rate for gas balancing can be included in the cost-based offer once these expenses are incurred.. Gas balancing due to a change in ownership cannot be included.

**24. Can the cost of ratable take gas be included with a Market Seller's cost-based offer?**

Gas balancing charges from ratable take gas cannot be included in a Market Seller's cost-based offer. However, PJM will attempt to honor any enforced and verifiable ratable gas flow pipeline restriction submitted as part of PJM's dispatch instructions through either;

- a. a temporary exception to the unit's operating parameters (e.g. minimum run time) on its Parameter Limited Schedules in the Day-Ahead Energy Market; or
- b. a change to real-time values<sup>2</sup> in Markets Gateway after the close of the Day-Ahead Energy Market.

Units dispatched with ratable gas restrictions will be eligible for make-whole payments for energy in accordance with PJM's current settlement rules. Any gas pipeline penalties or gas balancing charges incurred by the unit during this period cannot be included in the Market Seller's cost-based offer.

**25. Are Market Sellers responsible for providing ex-post documentation to support cost-based offers?**

Yes. Market Sellers are required to maintain all documentation needed to reconstruct cost-based offers. The documentation includes but not limited to invoices, contracts, screenshots, instant messages, text messages, emails or recorded phone calls. This information may be requested by PJM or the MMU to verify the development of cost-based energy offers. This information should be kept for a minimum of two years.

**26. How should Emissions and VOM (Variable Operations & Maintenance) costs be documented as part of a Fuel Cost Policy?**

Market Sellers should indicate in their Fuel Cost Policy whether or not they include Emissions and VOM in their cost-based offer and the frequency of update (Emissions section shall also indicate pricing source for allowances). Emissions and VOM costs should be calculated in accordance with Manual 15.

Also due by the June 15, 2019 deadline:

- Maintenance and Operating Cost Adder Templates must be submitted via the VOM SharePoint Site. (<https://connect.pjm.com/vomadders/SitePages/Home.aspx>)
- Emissions Data Must be submitted to the Cost Offer Assumptions (COA) module in MIRA.

**27. Am I required to supply VOM and Emissions documentation if my unit is under construction or in a pre-commercial state?**

Only units that are within 45 days prior to the expected commercial start date are expected to submit documentation of their VOM and Emissions components.

---

<sup>2</sup> For more information on real-time values see slides 26-36: <http://www.pjm.com/~media/committees-groups/committees/elc/postings/20160505-performance-assessment-hour-education-presentation.ashx>

**28. Am I required to supply VOM and Emission documentation if my unit is a renewable type, self-scheduled, or is a price-taker?**

All units that specify in their Fuel Cost Policy that they use non-zero VOM and Emissions adders in their cost offers are required to submit documentation of the calculation process. A self-scheduled unit could be taken over and dispatched by PJM, and would be made whole to a cost offer. Thus, the cost offer VOM and Emission components need to be documented. However, units such as windfarms and solar, that do not have Emission components in their cost offers, are not be required to submit Emissions documentation.

**29. Am I required to supply VOM and Emissions documentation for each unit, or one example that applies to all units?**

For each unit that has a different VOM and Emissions values, Market Sellers are required to submit separate VOM and Emission documentation. However, if a VOM and Emission calculation applies to a block of units, one sample calculation is sufficient. Templates for Emission and VOM costs are provided on the Fuel Cost Policy page on [pjm.com](https://pjm.com). (<https://pjm.com/markets-and-operations/energy/fuel-cost-policies.aspx>)

**30. How will a unit be made-whole during settlement for a revoked fuel-cost policy?**

Market Sellers who have a Fuel Cost Policy revoked by PJM will be provided a three (3) Business Day rebuttal period, starting from the date of revocation, to submit supporting documentation to PJM demonstrating that the revoked Fuel Cost Policy accurately reflects the fuel source, transportation cost, procurement process used, applicable adders, or commodity cost for the generation resource such that the Fuel Cost Policy accurately reflects the Market Seller's fuel procurement practices and methodology for pricing fuel. During the rebuttal period, if the Market Seller does not have a PJM-approved Fuel Cost Policy, it may not submit a non-zero cost-based offer. The penalty will still apply during the rebuttal period.

However, if upon review of the Market Seller's supporting documentation, PJM determines that the revoked policy accurately reflects the Market Seller's actual methodology used to develop the cost-based offer that was submitted at the time of revocation, and that the Market Seller has not violated its Fuel Cost Policy, then PJM will refund to the Market Seller the penalty payments and make-whole the Market Seller via uplift payments for the time period for which the applicable Fuel Cost Policy had been revoked and the generation resource was mitigated to its cost-based offer.

If during the revocation period the unit continues to offer on its price-based schedule, and the unit was offer capped during the rebuttal period, the unit would be made whole to the cost-based offer that would have applied during the cost capping. Otherwise, the unit would be paid according to the schedule they offered and were committed on during that period. In this case, no make-whole payments would apply and the penalty would be refunded.

**31. Where does a Fuel Cost Policy penalty show up on a PJM Settlement bill?**

Two new billing line items have been added to support Fuel Cost Policy penalties and credits. Additional information on the penalty can be found in a presentation posted with the April 20, 2017 Markets Settlements Subcommittee materials. (<https://www.pjm.com/~media/committees-groups/subcommittees/mss/20170420/20170420-item-04-fuel-cost-policy-penalty-new-msrs-reports.ashx>)

### 32. How does Intraday Offers (IDO) impact my previously approved Fuel Cost Policy?

Fuel Cost Policies are required to define a unit's election to participate in Intraday Offers. The introduction of Intraday Offers enables Market Sellers to update their cost-based energy offers on an hourly basis to reflect actual costs. Hourly updates for offers may be submitted up to 65 minutes prior to the start of the Operating Hour. Market Sellers have the option to participate in Intraday Offers by describing their opt-in election in their Fuel Cost Policy, and defining the scenarios, conditions or triggers that warrant an updated cost-based offer. These triggers need to be auditable.

Sample Intraday Offers Opt-in Language:

(Market Seller) will opt-in to Intraday Offers for the unit(s) referenced in this Fuel Cost Policy. (Market Seller) will validate cost-based offers, and update their cost-based offer intraday if costs change from original cost input used to create the day-ahead cost offer. The Intraday validation will be completed within the time period beginning (HH:MM time-zone) and ending (HH:MM time-zone); *PJM recommends a one hour maximum time period*. Cost-based offers may be increased but must be decreased based on the updated commodity cost at the time of validation.

(Market Seller) will update the cost-based offer based on the following process: *(Describe Intraday validation and update process or refer to Monitoring Analytics template for guidance on update process)*.

- Intraday Validation during specified time period – REQUIRED
- Secondary trigger, if applicable – NOT REQUIRED

(Market Seller) may also choose opt-in and update their cost-based offer based on defined auditable triggers, for example:

- Hot or Cold weather alerts;
- RTO load forecast greater than 125,000 MW in the winter months

For units that do not specify their Intraday Offer election (Opt-in, Opt-out, or Change election throughout the year) will, by default, be considered as Opt-out and are not permitted to update their offer intra-day.

### 33. How does FERC Order 831 (Offer Caps) impact my Fuel Cost Policy?

As part of the offer verification process, PJM is required to screen offers greater than \$1,000/MWh, ex-ante. More information about the offer verification screening and exception process is available on the [Energy Offer Verification](#) page on [pjm.com](#).

### 34. Whom do I contact with questions or to schedule a conference call with PJM?

Please contact [FuelCostPolicyAnalysis@pjm.com](mailto:FuelCostPolicyAnalysis@pjm.com) with any Fuel Cost Policy related questions, or if you would like to schedule a conference call to discuss your Fuel Cost Policy in greater detail.