



### Manual 15 – Variable Operation & Maintenance

#### Avoidable Cost Rate and Readability

##### *Problem Statement*

##### **Problem / Opportunity Statement**

During discussions related to the FERC Order on Hourly Offers, and more specifically Fuel Cost Policies, several issues were identified with regard to incremental maintenance cost.

The PJM Operating Agreement Schedule 2 (b) provides for generators to include the following incremental costs in cost-based energy offers:

- 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

As was highlighted during the Hourly Offers and Fuel Cost Policy discussions between Market Sellers, PJM, and the Market Monitor, there is a difference in interpretation between PJM and the MMU regarding the treatment of maintenance costs. It was also identified that generators are treated differently with respect to long-term maintenance costs in the current version of PJM governing documents.

These differences need to be discussed in order to resolve confusion to Market Sellers in their creation and submission of cost-based offers in PJM's Energy Markets.

The current definition of incremental costs, in Manual 15 "Cost Development Guidelines" does not clearly specify the components of variable operations and maintenance (VOM) that are incremental and includable in cost-based energy offers. Manual 15 also does not clearly specify which components of maintenance should only be includable in the RPM Market vs. those that are allowable incremental maintenance costs in the Energy Market.

It also was noted that the FERC accounts discussed in Manual 15 do not apply to all resources and Manual 15 should be reviewed to account for the lack of standardized cost accounting methods and provide alternative means to calculate maintenance costs if the FERC accounts do not apply. Additionally, the historical FERC based calculation process does not address all units, such as those units not required to account under FERC derived accounting definitions and Long-Term Service Agreement (LTSA) units.

Another area of concern is how to properly account for VOM costs for immature units, or units that have recently changed ownership. The cost-based offer submission process for immature units should define how to handle a resource changing how it operates, which technically begins when new operational data is collected even though the unit has operated in the past and is not an immature unit as defined by the current definition.



### *Issue Charge*

#### **Issue Source**

During the discussion of Fuel Cost Policies related to FERC Order Hourly Offers of PJM Interconnection, L.L.C., Docket No. ER16-372-000, PJM realized there were different interpretations between the MMU and PJM related to incremental maintenance costs vs. short run marginal costs. Furthermore, the guidelines in Manual 15, the cost development manual should be reviewed in order to ensure the accounting within the manual still applies to all generator types (FERC accounts). It also should be noted that current generator types, combustion turbines and combined cycles are treated differently with respect to long-term maintenance costs as of June 15, 2016 and this effort should determine if that is still appropriate, or resolve that situation if required.

#### **Stakeholder Group Assignment**

The interaction of making changes to incremental maintenance adders and what costs are allowed to be part of the RPM offer and Energy Market offer should be addressed at Special Sessions of the MIC.

#### **Key Work Activities**

1. Using an options matrix, the MIC will develop a preferred, clear definition and table of the components of variable operations and maintenance costs that may be included in energy cost offers and RPM avoidable cost rate. The MIC will also be charged with crafting appropriate manual language for Manual 15 reflecting this definition.
2. The definition seeks to provide reasonable transparent cost based alternatives for units under Long-term Service Agreements (LTSA's) and immature units.
3. Consider alternatives for non-FERC related accounting methodologies and options to reduce the administrative burden related to developing VOM costs.
4. Develop modification(s) as needed to other manuals and or the tariff to reflect the outcome of the MIC working sessions

#### **Expected Deliverables**

A proposal with modifications to Manual 15 that address the components of variable operation and maintenance costs to be included in energy cost offers for all types of generating units will be presented to the MRC and the MC.

#### **Expected Overall Duration of Work**

PJM estimates this work to consist of roughly 6-9 months. The goal is to have a first read at the MRC in September, vote at MRC in October, and vote at the MC in November, with Board approval by December 2017.

#### **Decision-Making Method**

PJM is hopeful that stakeholders will be able to use Tier 1, consensus (unanimity) on a single proposal as the preferred default option.