

### Fuel Cost Policies

#### Problem / Opportunity Statement

Fuel Cost Policies, as defined in PJM Operating Agreement (OA) Schedule 2 and in the PJM OATT (Tariff), document the process by which a PJM generating resource (Market Seller) calculates the fuel cost component of a generating resource's cost-based energy market offer.

Pursuant to OA Schedule 2, a Market Seller may only submit a non-zero cost-based energy market offer if it has a PJM-approved Fuel Cost Policy consistent with each fuel type on which the resource can operate. On an annual basis, Market Sellers are required to either submit to PJM and the Independent Market Monitor for PJM (IMM) an updated Fuel Cost Policy that complies with OA Schedule 2 or confirm that their currently effective and approved Fuel Cost Policy remains compliant.

PJM may assess a penalty, under OA Schedule 2, if PJM determines, with the agreement of the IMM, that a resource has submitted a cost-based offer that does not comply with the Fuel Cost Policy or if a cost-based offer is not in compliance with the OA Schedule 2.

All Market Sellers were required to have a PJM-approved Fuel Cost Policy for each fuel type by May 15, 2017. Updated Fuel Cost Policies were required as part of the move to Hourly Offers on November 1, 2017. Based on the first year of experience with PJM Fuel Cost Policies, there may be potential improvements to the rules and process governing Fuel Cost Policies and potential improvements to the current PJM approach to establishing cost-based offers.

Please see "Key Work Activities", below, for a list of potential Fuel Cost Policy rule and process enhancements.

#### Issue Source

Sponsors, listed below, have identified i.) Current improvements to PJM Fuel Cost Policy rules and processes and ii.) Potential alternatives to PJM's current system of Fuel Cost Policies and Cost-based offers.

#### Stakeholder Group Assignment

Sponsors propose that this issue be discussed at the Cost Development Subcommittee (CDS) or the Market Implementation Committee (MIC).

#### Key Work Activities

The following are some key work activities that should be undertaken to address the above stated problem.

- 1.) Education on the current Fuel Cost Policy rules.
- 2.) Education on cost-based offer development.
- 3.) Explore potential enhancements to Fuel Cost Policy rules. Initial review suggests the following categories for enhancements to PJM's fuel cost policies:
  - i.) Requirement for zero marginal cost offer units (e.g., wind and solar) to have Fuel Cost Policies;



## Problem Statement / Issue Charge

- ii.) Requirement for self-scheduled units to have Fuel Cost Policies;
- iii.) Need for Market Sellers, on an annual basis, to confirm that their annual Fuel Cost Policy remains compliant;
- iv.) Lack of a penalty exemption and/or safe harbor for minor violations in a Market Sellers' Fuel Cost Policy, and/or lack of appropriate crediting mechanism for a market-seller's self-report of a potential Fuel Cost Policy violation.

4.) Explore potential alternatives to PJM's current Fuel Cost Policy rules and cost-based offer rules. Initial review suggests that the mitigated offer or cost-based offer formation paradigms of neighboring ISOs/RTOs should be reviewed as candidates for adoption in PJM.

### Expected Deliverables

OA, Tariff and Manual language, if deemed necessary.

### Decision-Making Method

Tier 1, consensus (unanimity) on a single proposal.

### Expected Duration of Work Timeline

Key Work Activity (KWA) # 3 and KWA # 4 have different target completion dates, recognizing the differing scope of each KWA.

Complete KWA #3 through the stakeholder process by April 1, 2019, for any potential filing at the Commission by June 2019.

Complete KWA #4 through the stakeholder process by fall of 2019 for any potential filing at the Commission in the 4<sup>th</sup> quarter of 2019.

### Sponsors

Southern Maryland Electric Cooperative, Inc.

Old Dominion Electric Cooperative

PPGI Fund A/B Development, LLC