

Enhancement to PJM's Fuel Cost Policy Process

MAY 1, 2020



PSEG

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to make things better
... for you, for our investors
and for our stakeholders.

Problem Statement/Issue Charge*

- A Market Seller may only submit a non-zero cost-based energy market offer if it has a PJM-approved Fuel Cost Policy (FCP) consistent with each fuel type on which the resource can operate.
- Annually, Market Sellers are required to either submit to PJM and the IMM an updated FCP that complies with OA Schedule 2 or confirm that their currently effective and approved FCP remains compliant.
- PJM may assess a penalty, under OA Schedule 2, if it determines, with the agreement of the IMM, that a resource has submitted a cost-based offer that does not comply with the FCP or if a cost-based offer is not in compliance with the OA Schedule 2.
- Charge (KWA #4): Explore potential alternatives to PJM's current FCP and cost-based offer rules... "the mitigated offer or cost-based offer formation paradigms of neighboring ISOs/RTOs should be reviewed as candidates for adoption in PJM".

* See PJM issued PS/IC for FCPs A02a 20181102.

Issues Identified

Market Sellers (MS) note four issues with the current FCP process that create inefficiencies in its application:

1. MSs retain high degree of non-compliance risk for basic administrative errors
2. There is no mechanism to validate the accuracy of cost-based offers against the IMMs shadow calculation prior to submittal
3. Current policy allows for clearing the markets even if the cost-based offer is deemed non-competitive by PJM or the IMM
4. Penalties after-the-fact do not protect the market from improperly submitted cost-based offers

While after the fact penalties may provide incentives to avoid mistakes...- doing so does not protect the market from either errors or otherwise bad behavior

Objectives of Proposed Process Change

- Reduce compliance risk for MSs in submitting cost-based offers
- Ensure that only competitive offers consistent with the FCP are used to clear the markets when mitigation is applied
- Reduce the likelihood and extent of penalties for submitting non-competitive cost-based offers
- Keep rule and process changes to a minimum for ease of implementation

Simple Proposal

- Prior to the DA bid submittal deadline, PJM or the IMM will publish to each MS its unit specific cost-based offer.
 - **No Change** to how the cost-based offer is determined
 - **No Change** to how the cost-based offers are updated
 - **No Change** to who submits the cost-based offer
 - **No Change** to the tests for unit mitigation
- Sharing results of the cost-based reference price to which both PJM/IMM and the MS have agreed is a simple straight forward solution that achieves all four objectives

Possible Tariff Language

- OA Schedule 2/Manual 15

Market Participant Access to its Cost-Based Offers Levels:

The Internal Market Monitor (IMM) will make available to the Market Seller (MS) the Cost-Based Offer as determined by the IMM using the MS's FCP, applicable to that MS's Supply Offers through Markets Gateway. Updated Cost Based Offers will be made available at least 60 minutes prior to the DA offer deadline, and otherwise whenever updated through the operating day.