

# Fuel Cost Policies

MMUAC

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# Fuel Cost Policies

- In PJM, the IMM/MMU does not calculate cost-based offers for Market Sellers. Market Sellers calculate cost-based offers based on their approved Fuel Cost Policies, the PJM Tariff and the Cost Development Guidelines (PJM Manual 15).
- Fuel Cost Policy is the document that describes the “method used to price fuel for calculation of the Market Seller’s cost-based offers for a generation resource.”

# Fuel Cost Policies

- **Prior to 2017, only the IMM reviewed and approved fuel cost policies. As part of the Offer Flexibility Docket (ER16-372), PJM began actively reviewing and approving fuel cost policies.**
- **New rules include formal deadlines and penalties for failure to comply. Every generator now has a fuel cost policy.**
- **New rules created departure from tariff defined roles:**
  - **PJM role as tariff administrator.**
  - **IMM role as market monitor.**

# IMM Fuel Cost Policy Review

- **PJM Market Monitoring Plan:**
- **“Determinations about market power are the responsibility of the Market Monitoring Unit under Tariff, Attachment M – Appendix and under this Attachment M. The Market Monitoring Unit shall review all proposed sell offers for a determination of whether they raise market power concerns.”**

# IMM Fuel Cost Policy Review

- **“The Market Monitoring Unit shall make a determination about whether offer or cost inputs or a decision not to offer a committed resource is physical or economic withholding or otherwise involves a potential exercise of market power.”**
- **“The Market Monitoring Unit and market participants shall, in accordance with the applicable procedures and as set forth elsewhere in the Tariff, attempt to come to agreement about the level or value of offers or cost inputs.”**



# IMM Fuel Cost Policy Review

- **IMM Standards:**
  - **Fuel cost policies must reflect the short run marginal cost of fuel.**
  - **Fuel cost policies must be algorithmic, verifiable and systematic.**
  - **Fuel cost policies must result in an accurate fuel cost.**



# IMM Fuel Cost Policy Review

- **Algorithmic:** Must use a set of defined, logical steps.
- **Verifiable:** Must provide a fuel price that can be calculated by the IMM after the fact with the same data available to the Market Seller at the time the decision was made and documentation for that data from a public or a private source.
- **Systematic:** Document a standardized method or methods for calculating fuel costs including objective triggers for each method.



# Dual IMM/PJM Review

- Typically, the IMM reviews policies first, providing feedback to participant and input to PJM.
- The IMM provides written feedback to participants.
- When the participant addresses the IMM concerns, the policy is passed.
- When the IMM and the participant do not reach agreement, the policy is failed.
- The policy status is communicated to PJM.
  - In addition, the reasons for failed policies are communicated to PJM in writing.



# 2018 Annual Fuel Cost Policy Review

IMM Status	Units	Percent
Pass	1,126	87%
Submitted	0	0%
Fail	174	13%
Not Submitted	0	0%
Total	1,300	100%

- **PJM approved Fuel Cost Policies for all units.**
- **The IMM failed Fuel Cost Policies for 173 units.**
- **The final outcome was: 87% pass and 13% fail.**
- **The final outcome in 2017 was: 84% pass and 16% fail.**

# Issues in Failed Natural Gas Policies

- **Unverifiable cost estimates.**
- **Use of available, but irrelevant, market information that results in inaccurate expected costs.**
- **Use of unsupported natural gas hubs (indices).**
- **Incorrect cost offer calculation method.**
- **Use of unsupported adders.**
- **Unclear implementation of hourly offers and intraday offer updates.**

# Tariff Standards Not Met in Some Policies

- **Accuracy:** Reflect applicable costs accurately;
- **Procurement Practices:** Provide information sufficient for the verification of the Market Seller's fuel procurement practices;
- **Fuel Contracts:** Reflect the Market Seller's applicable commodity and/or transportation contracts (to the extent it holds such contracts);
- **Adders:** Provide a detailed explanation of the basis for and reasonableness of any applicable adders included in determining fuel costs in accordance with PJM Manual 15.

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