



Issue Summary: Variable Operations and Maintenance (VOM) Definition

Issue:

The PJM Operating Agreement provides for generators to include incremental costs in cost based energy offers. 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 offer. Some components of VOM may currently not be included in cost based offers in the appropriate market (capacity market or energy market). There also has been a considerable amount of discussion on the administrative cost of calculating components in Manual 15 due to a lack of standardized cost accounting methods. Additionally, the historical FERC-based calculations 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 account properly for VOM costs for immature units.

Please refer to the following links for material related this issue.

[VOM Definition: Issue Tracking](#)

[VOM Definition Problem Statement](#)

Interests:

The following interests were identified at the March, 2011 CDS:

- A clear definition should be developed to remove ambiguity of what should be included in VOM and what should not be included in VOM.
- VOM cost should be developed in a fixed versus variable cost point of view and not short versus long term costs.
- The calculation methods for VOM should be simple and repeatable.
- The definition of VOM should not include references to FERC accounts.
- Accounting practices of participants should not define what is included in VOM.
- A simplified calculation method should be available for determining VOM.

[VOM Educational Document PJM Issue Tracking 2011](#)

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- Double dipping and gaming should be prevented.
- Timeline differences between VOM and RPM should be addressed
- Overhaul costs should be recoverable in RPM or VOM.
- Life cycle and failure rates should be analyzed and boundaries that fit each item into fixed or variable based on expectations.

Design Criteria:

The following design criteria were identified at the March, 2011 CDS:

- A clear definition of VOM should be developed.
- A preferred method for determining VOM should be adopted
- Create a clear procedure for calculation of VOM costs.
- Procedures distinguish between fixed and variable costs, rather than trying to address short-term vs. long-term costs.
- Addresses Capital versus Expense accounting practices.
- Determine a VOM calculation based on current and historically available expense records.
- A simple method is available as an alternative.
- Development of a clear calculation procedure so that VOM that is calculated by the MMU and by market participants should be the same number.
- Procedures can accommodate units under Long Term Service Agreements
- Procedures address capital versus expense accounting practices



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Consensus Position:

The CDS reviewed the design criteria and started building the [Collaborative Solution Matrix for VOM](#) at the April, 2011 CDS.