Variable Operation & Maintenance Definition

Cost Development Task Force – Conference Call
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Monitoring Analytics
Incremental Cost

• Variable Operation and Maintenance Costs should include only short run incremental costs

• PJM Operating Agreement – Schedule 2B provides for generators to include the following components of cost:
  • Incremental fuel cost
  • Incremental maintenance cost
  • Incremental labor cost; and
  • Other incremental operating costs.
Operating and Maintenance Cost Guidelines

• CT Maintenance Adder - Total dollars from FERC Account 553 divided by Equivalent Service Hours (ESH).

• FERC Account 553 – “This account shall include the cost of labor, materials used and expenses incurred in maintenance of plant…”

• This includes only incremental costs, or short-run marginal costs, which are used to represent the cost of the next unit (MW) of energy, in PJM Energy Markets.
Avoidable Cost Rate (ACR) Rules

• Currently, any cost includable in offers to the PJM Energy Market is *not* includable in an Avoidable Cost Rate, per Tariff:

• PJM Tariff Attachment DD, Section 6.8 – “For the purpose of determining an Avoidable Cost Rate, avoidable expenses are incremental expenses directly required to operate a Generation Capacity Resource that a Generation Owner would not incur if such generating unit did not operate in the Delivery Year or meet Availability criteria during Peak-Hour Periods during the Delivery Year.”

• “For the purpose of determining an Avoidable Cost Rate, avoidable expenses shall exclude variable costs recoverable under cost-based offers to sell energy from operating capacity on the PJM Interchange Energy Market under the Operating Agreement.”
VOM Proposed Change Draft Schedule

12/06/10 – Review Proposal and Vote at CDTF
12/15/10 – Informational at MRC
01/19/11 – Vote at MRC
01/27/11 – Informational at MC
03/31/11 – Vote at MC
04/04/11 - 04/06/11 – PJM Board Meeting

2014/2015 Base Residual Auction Timeline

03/02/11 – MMU Data Submittal Due
05/02/11 – RPM Auction opens
Units with Long Term Tolling Agreements

- Long term tolling agreements may include variable and fixed components
- The appropriate variable costs to include in any cost-based energy offer:
  - Incremental fuel costs
  - Incremental VOM
- Fuel costs should be actual
- VOM may be estimated
  - Goal is to match actual incremental VOM
  - Exclude margins
  - Exclude other costs
  - A test for estimated VOM required to ensure reasonable accuracy