The Definition of Costs and Cost Recovery

Cost Development Subcommittee
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Monitoring Analytics
Incremental Cost Background

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

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

• Short run marginal cost
  • Costs that are incurred directly as a result of operating the unit. For example:
    o Fuel
    o Emission Allowances
    o Consumables

• Avoidable cost or going forward cost (ACR)
  • Costs that would be avoided if the unit did not operate for a year. For example:
    o Combustion inspections
    o Major Inspection
Types of Costs

• Fixed Cost
  • Investments (APIR). For example:
    o Turbine
    o SCR
Issue

• Cost types need to be mapped to:
  • Energy offers in Manual 15
  • Capacity offers (ACR)
  • Capacity offers (APIR)
• Incremental maintenance needs to be defined clearly in Manual 15.