Gas Cost Allocation In PJM

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Introduction
Gas Cost Components

- Commodity
- Transportation

Delivered Gas
Gas Procurement

Primary
- Commodity
- Transportation
  - Interruptible
  - Firm
  - Capacity Release

Secondary
- Bundled Product
  - Spot/Intraday
  - Bilateral
## Market Allocation of Gas Costs

### Primary Market

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Interruptible</th>
<th>Firm (Volumetric)</th>
<th>Firm (Non-Volumetric)</th>
<th>Capacity Release</th>
<th>Secondary Market</th>
</tr>
</thead>
</table>
Primary Market Cost Recovery
To be recovered in a cost offer, fuel costs must either:

- Be variable to be recovered in the energy market.
  - All cost offers must conform to Manual 15: Cost Development Guidelines
- Be avoidable and fixed to be recovered in the capacity market.
  - Based off of a generator’s *Avoidable Cost Rate (ACR)*
  - Costs must be *annual*

- Units can recover all applicable fuel costs in a price offer
What is ACR?

- Avoidable costs are the costs of being a capacity resource and **the fixed annual operating expenses** that would not be incurred if a unit were **not** a capacity resource for a year.

- Generators can:
  - Provide unit specific ACR data to the Market Monitor
  - Choose to use a Default Unit ACR value
• Examples of fuel related costs in ACR include:
  – Avoidable Variable Expenses (AVE)
    • Gas not used for power generation
  – Avoidable Carrying Costs (ACC)
    • Costs of keeping spare parts and fuel inventory on site.
• With this, recoverable costs include:
  – Commodity gas in the energy market
  – Interruptible transportation in the energy market
  – Firm transportation (volumetric) in the energy market

• Unrecovered costs include:
  – Firm transportation (non-volumetric) in the capacity market
    • Annual or temporary
Secondary Market Cost Recovery
Secondary Gas Market Cost Recovery

- Secondary market gas costs are bundled transactions
  - Include both commodity and transportation in finished costs.
- Cost of delivered gas are recoverable in the energy market because costs are volumetric
- Costs exceeding energy market cap are unrecoverable
  - FERC Waiver
Secondary Market Effects on Cost
Spot Gas Prices – January 2014

Gas Price per MMBtu

$-  $120

1/1 1/6 1/11 1/16 1/21 1/26 1/31

Henry  Market (East)  Market (West)  Production
Market East Gas Costs per MWh - January 2014
The numbers used for calculation purposes are based on estimates. The results of the calculations are intended for educational and discussion purposes only.