

# Fuel Cost Policy Education

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Market Implementation Committee  
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- A Fuel Cost Policy (FCP) documents the methodology used to calculate a Market Seller's fuel related cost and other components included when developing the cost-based offer.
  - All fuel costs shall employ the marginal fuel price experienced by the Member.
- Members must have a PJM approved fuel cost policy to submit nonzero cost-based offers
  - Must cover all fuel types that wish to submit a nonzero cost-based offer
- FCPs govern offers submitted by the DA deadline and any subsequent updates after that. There is no requirement or guidelines for the calculation of offers prior to the DA market.

# Components of Total Fuel Related Costs



\*Variable Operations & Maintenance Costs are not included in the fuel cost policy. This is a separate review process.

Regardless of fuel type, a fuel cost policy must include:

- Systematic and verifiable method for calculating fuel costs
- How the spot price or contract price is determined
  - Defined liquid and illiquid conditions

- Fossil Fuel Costs are limited to:
  - Inventory Cost
    - Example: coal costs may be based on the most recent unloaded coal train
  - Replacement Cost, or
    - Example: oil cost may be based on the current Platts price for No.2 New York Harbor
  - A combination of inventory and replacement cost

- Generation resources using a fuel source other than natural gas:
  - Fuel costs for solar and run-of-river hydro resources shall be zero.
  - Fuel costs for nuclear resources shall not include in-service interest charges whether related to fuel that is leased or capitalized.
  - For Pumped Storage Hydro resources, fuel cost shall be determined based on the amount of energy necessary to pump from the lower reservoir to the upper reservoir.
  - For resources receiving renewable energy credits (RECs) and/or production tax credits (PTCs) that plan to submit a non-zero cost offer shall identify how it accounts for RECS and PTCs.
  - For solid waste, bio-mass and landfill gas resources, the Market Seller shall include the costs of such fuels even when the cost is negative.
  - For Energy Storage Resources, fuel cost shall include costs to charge for later injection to the grid.

- Day Ahead
  - Describes how the fuel cost is estimated in the Day Ahead Market
  - Required in all fuel cost policies
- Rebid
  - Describes how the fuel cost is updated in the Rebid Market
  - Required if Market Seller plans to update the cost offer in the Rebid Market
- Intraday
  - Describes how the fuel cost is updated intraday
  - Required if Market Seller plans to update the cost offer in the Real-Time Market
  - Triggers for when the cost offer will be updated must be identified

- Transportation Costs
  - Pipeline, barge, rail, etc.
- Other Fuel Related Costs (OFRC)
  - Fuel handling equipment leases, fuel additives



- Emissions Allowances (if including in offer)
  - Must include type of allowances
    - SO<sub>2</sub>, CO<sub>2</sub>, NO<sub>x</sub>
  - Emissions rate source & frequency of update
    - e.g. CEMS
    - e.g. monthly
  - Allowance pricing source & frequency of update
    - e.g. Argus
    - e.g. weekly
- Emissions rates are reviewed annually as part of a separate process

- Heat Input
  - Source of data and frequency of update
- Start up costs
  - Source of data and frequency of update
- Performance Factor (if other than 1)
- Numerical Example
  - Sample calculation of a Cost-Based Offer
  - PJM utilizes this to confirm Start-Up and No-Load Calculations

Costs that are not permitted to be included in a cost-based offer:

- Fixed costs
- Gas pipeline penalties
- Gas balancing charges from ratable take gas
- Gas balancing due to a change in ownership
- Stranded gas charges

- Fuel Cost Policy Templates:  
<https://www.monitoringanalytics.com/tools/tools.shtml>
- Operating Agreement, Schedule 2:  
<https://www.pjm.com/pjmfiles/directory/merged-tariffs/oa.pdf>
- Manual 15:  
<https://www.pjm.com/-/media/DotCom/documents/manuals/m15.pdf>
- Fuel Cost Policy Guidelines:  
<https://www.pjm.com/markets-and-operations/energy/fuel-cost-policies>

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**Offer Capping for Resources Scheduled Prior to the  
Day-Ahead Energy Market**



### Member Hotline

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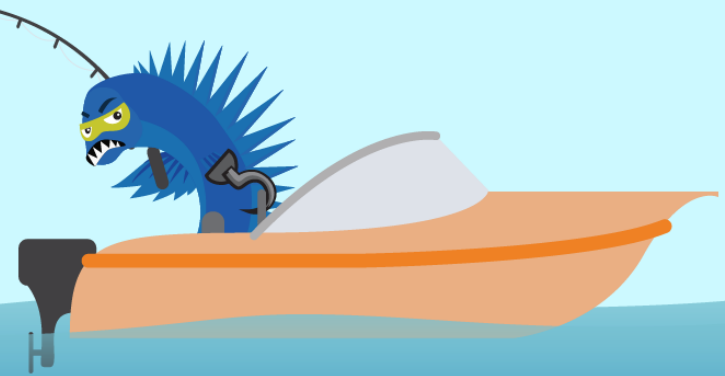
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POWER GRID**

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