

FUEL COST POLICY (FCP) UPDATES REGARDING AFFILIATED FUEL SUPPLIERS

PROBLEM / OPPORTUNITY STATEMENT

Manual 15 Language regarding requirements for Fuel Cost Policies does not explicitly address situations where a Market Seller or the Market Seller's designated agent (e.g., energy manager) may be affiliated with such Market Seller or its agent's fuel supplier. Such affiliation could lead to Market Sellers submitting cost-based offers that reflect unverifiable fuel costs. That is, there may be inherent incentives for a fuel supplier to provide a fuel cost estimate to an affiliated Market Seller or designated agent of such Market Seller that may not be reflective of the expected fuel cost or the market price. Such an outcome could be used by Market Sellers that have market power (e.g., fail the three pivotal supplier test) to potentially manipulate the market by obtaining a fuel cost estimate from an affiliated fuel supplier that may not reflect market pricing of fuel costs. Such an approach would allow Market Sellers to set energy prices at an uncompetitive level. This process will provide the opportunity to develop fuel cost policy requirements such that the market sellers can provide fuel cost estimates that reflect accurate market pricing when an affiliation between an energy manager/market seller and fuel supplier exists.