

# Fuel Cost Policies Education

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# Competitive Markets

- **Competitive market outcomes in the PJM markets in the presence of market power require market power mitigation of supply offers to a competitive level.**
- **Short run marginal costs are the only costs relevant to the energy market. The competitive offer level in the energy market is the short run marginal cost of production.**

# Cost-Based Offers

- **In PJM, unit owners have to submit cost-based offers and may submit price-based offers.**
- **Cost-based offers are used by PJM to mitigate the exercise of market power by market sellers that fail the three pivotal supplier test.**
- **Market sellers are responsible for the development of cost-based offers.**

# Cost-Based Offer Parts

- **Schedule 2 of the PJM Operating Agreement defines the components of cost-based offers. Units in PJM are allowed to submit cost-based offers in three parts.**
  - **Incremental energy cost curve**
  - **No load cost**
  - **Start cost**

# Cost Components

- **Cost-based offer components include:**
  - **Fuel costs**
  - **Operating costs**
  - **Maintenance costs**
  - **Opportunity costs**
  - **Emission allowances**

# Fuel Costs

- **Market sellers calculate cost-based offers based on their approved Fuel Cost Policies, Operating Agreement, Schedule 2 and the Cost Development Guidelines (PJM Manual 15).**
- **A Fuel Cost Policy is the document that describes the “method used to price fuel for calculation of the Market Seller’s cost-based offers for a generation resource.”**

# IMM FCP Review

- **IMM Standards:**
  - **Fuel cost policies must reflect the short run marginal cost of fuel.**
  - **Fuel cost policies must be algorithmic, verifiable and systematic.**
  - **Fuel cost policies must result in an accurate fuel cost.**

# IMM FCP Review

- **Algorithmic:** Must use a set of defined, logical steps.
- **Verifiable:** Must provide a fuel price that can be calculated by the IMM after the fact with the same data available to the Market Seller at the time the decision was made and documentation for that data from a public or a private source (e.g. ICE, Platts, quotes).
- **Systematic:** Document a standardized method or methods for calculating fuel costs including objective triggers for each method.

# Affiliates

- **In order for fuel costs to be verifiable, they must be independent from affiliates of the Market Seller and/or energy manager.**
- **The goal is to have fuel costs that reflect market conditions.**
- **Estimates developed within the same organization are not verifiable and can be disconnected from market conditions.**
- **This standard does not confine Market Sellers to specific energy manager and/or fuel suppliers.**
- **This standard requires the energy manager and/or fuel suppliers to provide transparency, such as the source of the fuel price.**

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