

Fuel Cost Policies and Cost-Based Offers

Why Current Implementation Can Fail to Reflect Marginal Cost

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Shared Objectives

- ④ **Support Fuel Cost Policies as a necessary market protection tool**
- ④ **Agree transparency and verification are essential**
- ④ **Focus on whether current practice achieves intended outcomes**

What a Cost-Based Offer Is Intended to Represent

- ④ **Reflect short-run marginal cost of producing the next MWh**
 - Incremental fuel cost the resource expects to incur if dispatched
 - Cost faced at the margin, not an average or proxy
- ④ **Based on the marginal fuel price experienced by the Market Seller**
- ④ **Fuel Cost Policies verify methodology – not substitute pricing**

Why Marginal Cost Matters

④ **Cost-Based Offers anchor dispatch to economic fundamentals**

- Align commitment and dispatch with real operating costs

④ **Protect the market by preventing offers unrelated to cost**

- Prevent both over- and under-statement of costs

④ **If an offer does not reflect marginal cost, it is not cost-based in an economic sense**

- Accuracy matters as much as verifiability

When and Why Problems Arise

④ Issue is limited in scope — not all Fuel Cost Policies

- Many FCPs function as intended

④ In non-affiliated cases, executable quotes are generally permitted

- Waterfall often stops before fallback paths

④ Problem arises when executable quotes are disallowed, forcing fallback paths

- This is where the failure mode appears

Generic Fuel Cost Policy Waterfall (Affiliation Cases)

- ④ **Executable supplier quotes are disallowed**
 - Even when they reflect actual fuel cost
- ④ **Third-party quotes often unavailable or non-binding**
 - No realistic transaction → no executable quote
- ④ **Policy defaults to index pricing with generic adjustments**
 - Index becomes a substitute, not a verifier

Why Third-Party Quotes Are Unavailable or Irrelevant

④ No transaction → no quote (Exclusivity Contracts)

- Rational supplier behavior
- No incentive to provide pricing

④ Suppliers provide extreme over-indications

- Persistent requests without transacting

④ Quotes that may exist are non-binding or indicative

- Not executable
- Not market-based
- Not available when called upon

Why Index Pricing Diverges from Expected Fuel Cost

④ Locational basis differences

- Different receipt points or pipeline zones

④ Timing mismatch (timely vs intraday procurement)

- Index windows lag real-time procurement decisions

④ Operational constraints and pipeline conditions

- Balancing penalties
- Forced intraday purchases

Real World Example

- ④ Resources in the chart to the right are real examples from January 25th, 2026
- ④ Both sites:
 - are located in ComEd
 - have multiple Combustion Turbines
 - were under ratable OFOs
- ④ The only difference between the two sites is the fuel supplier

FUEL SUPPLIER	AFFILIATE	NON-AFFILIATE
Intraday Gas Quote (\$/MMBtu):	\$135.00	\$215.71
FCP Compliant Offer Price (\$/MMBtu):	\$34.72 (Index)	\$215.71 (Quote)
Difference (\$/MMBtu):	\$100.28	\$0.00
Gas Purchase Required (MMBtu):	268,600	145,300
Potential Cost Incurred (\$):	\$36,261,000	\$31,342,663
Potential Cost Recoverable (\$):	\$9,325,792	\$31,342,663
Unrecovered Cost (\$):	(\$26,935,208)	\$0

Why Current Practice Can Increase Market Risk

- ④ **Distorts price and scarcity signals**
 - Especially during stressed conditions
- ④ **Encourages conservative, risk-averse behavior**
 - Reduced availability or flexibility
- ④ **Persistent under-recovery can reduce competition**
 - Long-term market health impact

Key Takeaways

- ④ **Agree on the purpose of Fuel Cost Policies**
- ④ **Current mechanics can fail to reflect marginal cost**
- ④ **Next step is structured stakeholder work on implementation**