

M15 Update for Fuel Cost Policy Requirements

David Hauske
Performance Compliance Dept.

Cost Development Subcommittee
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- Additional language is required in M15 to clarify Fuel Cost Policy requirements when an affiliation exists between the Market Seller or designated agent (e.g. energy manager) with a Fuel Supplier.
- Additional clarification for this situation will provide the following:
 - Coincides with IMM's position as stated in the 2022 State of the Market Report (Refer to page 132 on the link below)
https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2022/2022-som-pjm-sec3.pdf
 - Prevents any conflict of interest between the Market Seller, or with the Market Seller's Energy Manager and the Fuel Supplier
 - Assures that fuel cost estimates are verifiable from publicly available information or independent third parties.
 - Mitigate the risk of market manipulation by using fuel cost estimates that reflect market pricing

- Use Quick Fix process to update M15 language for Fuel Cost Policy requirements
- Proposed Key Work Activities
 1. Review Status Quo PJM Manual 15: Cost Development Guidelines and educate stakeholders on the concerns that may arise if a Market Seller (or its designated agent) uses a fuel cost estimate from an affiliated fuel supplier in cost-based offers.
 2. Discuss proposed solution to address the concerns.

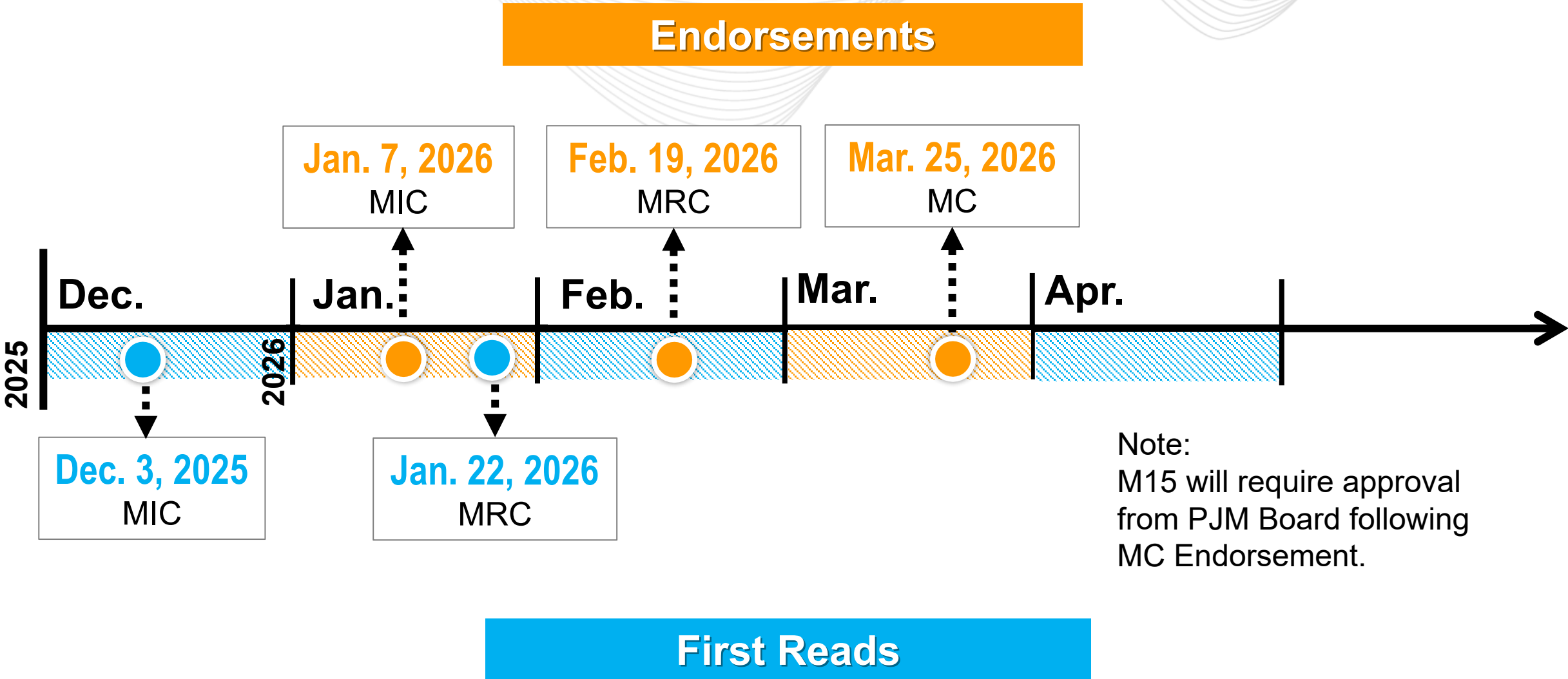
- Add additional paragraph to M15, Section 2.2.2 Fuel Cost Calculation:

“For situations where an affiliation exists between a fuel supplier and a Market Seller, or its designated agent (e.g., Market Seller’s energy manager), quotes for fuel cost from such fuel supplier are not allowed to be included in the Market Seller’s cost-based offer. In such cases, the applicable Fuel Cost Policy shall specify that fuel costs must be derived from publicly available market information that is verifiable by PJM and the IMM.”

- Add Fuel Cost Policy standard language to M15, Section 2.2 to clarify the use of third party quotes:

Each Market Seller must account for situations where applicable indices or other objective market measures are not sufficiently liquid by documenting in the Fuel Cost Policy the alternative means actually utilized by the Market Seller to price the applicable fuel used in the determination of its cost-based offers, such as specifying alternative pricing points or documented independent third party quotes for the procurement of natural gas.

Independent third party quotes are executable offers provided by companies not affiliated with the Market Seller or with the Market Seller's Energy Manager (also known as Marketer). Independent third party quotes require bilateral interaction between the two parties, the potential buyer (e.g. the Market Seller or the Energy Manager) and the potential seller. Independent third party quotes are not offers on exchanges made available to multiple parties. Independent third party quotes must specify the type of product (e.g. next day or same day gas).



Facilitator:
Heather Reiter,
Heather.Reiter@pjm.com

Secretary:
Casey Noonan,
Casey.Noonan@pjm.com

SME/Presenter:
David Hauske,
David.Hauske@pjm.com

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Member Hotline

(610) 666 – 8980

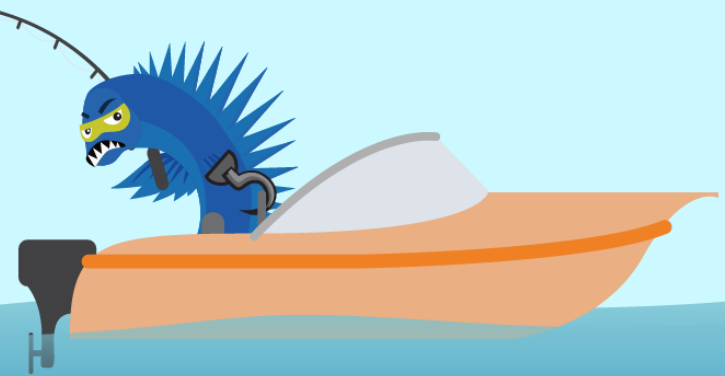
(866) 400 – 8980

custsvc@pjm.com

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