



# Fuel Cost Policy Guidelines

Periodic Review Period PJM Interconnection Version 3:  
5/3/2023

Review Date \_\_\_\_\_ Fuel Cost Policy ID # \_\_\_\_\_ Replacement FCP ID # \_\_\_\_\_

- ☐ Special Arrangements
  - ☐ Power Purchase Agreement (PPA) – market seller is responsible for paying unit owner \$/MWh for output
    - ☐ PPA Contract provided
      - ☐ Expiration date \_\_\_\_\_
    - ☐ \$/MWh rate specified in policy
  - ☐ Tolling Agreement – market seller purchases fuel and pays fees to unit owner for operation
    - ☐ PPA Contract provided
      - ☐ Expiration date \_\_\_\_\_
    - ☐ \$/MWh rate specified in policy
    - ☐ Fuel price estimation described in policy (Fuel cost section to be filled out)
- ☐ Fuel Costs ([Section II](#))
  - ☐ Inventory
    - ☐ Accounting or calculation methodology (example: First in, first out)
  - ☐ Replacement Cost
    - ☐ Contract (fixed price in \$/mmbtu specified in contract – typically coal or oil)
      - ☐ Independent supplier
      - ☐ Contract provided
      - ☐ Expiration date \_\_\_\_\_
    - ☐ Spot
      - ☐ Pricing point or hub
        - ☐ Published Index or price (example: Platts)
        - ☐ Real-time pricing
          - ☐ ICE
          - ☐ Broker's quote
          - ☐ Fuel supplier
            - ☐ Independent supplier
            - ☐ Contract provided
            - ☐ Expiration date \_\_\_\_\_
- ☐ Natural Gas – Define Liquidity, GD1/GD2 regardless of IDO optionality
- ☐ Wind – Fuel cost = \$0. RECs and PTCs information must be included if offering non-zero.
- ☐ Hydro – Pumped Storage Cost may be > \$0 / Run of River Hydro Cost = \$0. RECs information must be included if applicable and offering non-zero.
- ☐ Solid Waste, Biomass, Landfill Gas – Cost includes negative fuel prices if applicable. RECs information must be included if applicable and offering non-zero.
- ☐ Solar – Fuel cost = \$0. RECs and PTCs information must be included if offering non-zero.
- ☐ Transportation

- ☐ Offer update methodology and triggers ([Section II](#))
  - ☐ Day-Ahead
  - ☐ Intra-day
  - ☐ Re-bid\*
  - ☐ Multi-day\*
- ☐ Start-up, No-load, and Incremental Heat Input Value ([Section III](#))
  - ☐ Source of values
  - ☐ Frequency of update (at least annually for either Heat Rate or Performance Factor)
  - ☐ Unit-specific Performance Factor (value other than 1)
- ☐ Emissions Rates and Allowances - for all non-zero polices, state if included ([Section IV](#))
  - ☐ Not Utilized
  - ☐ Source and update frequency of rates
  - ☐ Source and update frequency of allowances
- ☐ Intraday Optionality ([Section VI](#))
  - ☐ Opt-out
  - ☐ Opt-in
  - ☐ Intra-day validation (required)
  - ☐ Secondary trigger (optional)
- ☐ Numerical Example – not required for \$0 offers ([Section VII](#))

## I. INTRODUCTION

This document is intended to provide general guidance for the level of detail requested in submitted Fuel Cost Policies. Detailed guidelines are contained in Manual 15 “Cost Development Guidelines”.

Fuel Cost policies are used by PJM and the MMU to review and verify a unit’s cost based offer. Fuel Cost Policies define the method used by the Market Seller to determine Total Fuel Related Costs. Fuel Cost policies shall include the method used by the Market Seller to calculate:

- Fuel Cost
- Fuel additives
- Emission allowance cost (if applicable), and;

Fuel Cost policies should also include other items necessary to verify a unit’s cost based offers. These can include:

- Performance Factor, Heat Rate, or Heat Input information
- Start Costs
- No Load Costs

Fuel Cost policies shall be submitted to PJM and the MMU through the MIRA application, or other system(s) made available for submission of such data.

## II. FUEL COST CALCULATIONS

Market Sellers are responsible for establishing their own method of calculating delivered fuel costs, limited to inventoried cost, replacement cost, or a combination thereof. A Market Seller may elect to calculate fuel cost using actual cost (i.e. contract price), spot price, or a combination of actual cost and spot price. PJM expects the following information to be included in a fuel cost policy (whether the Market Seller is using inventoried cost, replacement cost, or a combination).

- The contract price must include the locational cost of fuel for the generating unit.
  - Fuel supplier contract must be supplied if contract fees are included in addition to the commodity cost
  - Entering into a new fuel supplier contract requires an update to the Market Sellers Fuel Cost Policy
- The pricing index used for spot price must be publicly available and reflect the locational cost of fuel for the generating unit.
- Detailed numerical example of the process, methodologies, and calculations used for determining a unit’s fuel cost. (separate document)
  - A Market Seller will maintain and supply supporting documentation that would allow PJM or the MMU to confirm a specific day’s Total fuel Related Costs, if requested.

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Additionally, Market Sellers must provide information on how fuel costs are estimated in the day-ahead market, whether offers are updated in the rebid period and intra-day period, as well as if offers are updated on non-business (weekends and holidays) days, and what the methodology and triggers for each of those offer updates include.

Details pertaining to information needed for the intra-day offer updates are contained in section XIII of this document.

- Day Ahead
  - Describe process for estimating fuel cost in the day-ahead market
  - Natural Gas units must indicate if GD1 and GD2 are used, or if a weighted average gas price is used across the entire electric day
- Rebid
  - Market Sellers must indicate if they are updating offers in the rebid period
  - Triggers for update and process for estimating fuel cost must be defined
  - \*This section is only required if the market seller intends to update their offer in the rebid period. If the section is not included in the policy, the market seller may not update their offers in rebid.
- Intra-day
  - Market Sellers must indicate if they are updating offers in the intra-day period
  - Triggers for update and process for estimating fuel cost must be defined
  - Market sellers must include one daily validation window, with a specified time frame, during which they will verify the natural gas estimate and update if the prices have decreased.
  - Optionally, market sellers may also specify a secondary trigger for updating their natural gas estimate. Examples may include hot/cold weather alerts or +/- % price changes noted in the gas market. If market sellers do not define a secondary trigger, they are limited to updating their natural gas price once a day during the specified validation window.
- Non-business (multi-day)
  - Market Sellers must indicate if offers are updated on non-business days
  - Triggers for update and process for estimating fuel cost must be defined
  - \*This section is required if the market seller would like to use a natural gas price estimate other than the “weekend strip”, then they must indicate how they will price the individual market days. If this section is not included, PJM assumes that the market seller is using the same gas price for the entire weekend/holiday period.

Additional guidelines are also provided below for specific fuel types for units making a non-zero cost-based offer in the energy market.

#### A) *Natural Gas*

Market Sellers shall provide the following additional information for natural gas fired units:

- Contract terms, if applicable, for gas procurement including any variations for timing and procurement.
- Spot price details, if applicable, such as index or broker quotes that would be used for cost determination.

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- Identify if using timely or intraday pricing (GD1/GD2) for Day-Ahead, Rebid, and Intraday (if applicable)
  - If using ICE, identify timeline of the observation on ICE
- Transportation and supply details such as relevant pipeline(s) or LDC(s), transportation charges or basis, types of transportation service used (firm/interruptible), and source points and intermediary points.
- Document any process changes used to address varying conditions such as weekends/holidays, change in season, extreme temperatures, and pipeline restrictions.
- Define liquidity standards for using pricing indices.
- Define the process or methodology for pricing natural gas during times of illiquidity.

*B) Dual-Fuel*

- A policy for each fuel type is required
- Units that co-fire more than one fuel shall weight average the cost of the fuel on a per MMBtu basis.

**Nuclear**

Nuclear fuel costs shall be based on the dollars in FERC Account 518, less in-service interest charges (whether related to fuel that is leased or capitalized). This quantity shall be calculated in units of dollar per MMBtu, as forecasted for the applicable cycle.

*C) Hydro and Pumped Storage*

- Fuel costs for a Run-of-River hydro unit are typically zero.
- Pumped Storage fuel cost shall be calculated on a seven (7) day rolling basis by multiplying the real time LMP at the plant node by the actual power consumed when pumping divided by the pumping efficiency. The pumping efficiency is determined annually based on actual pumping operations or by Original Equipment Manufacturer (OEM) curves if annual data is not available.
- Market Seller shall identify how they account for Renewable Energy Credits (RECs) when applicable.

*D) Wind*

Market Seller shall identify how they account for Renewable Energy Credits (RECs) and Production Tax Credits (PTCs).

*E) Solar*

The fuel costs for solar units are zero. Market Seller shall identify how they account for Renewable Energy Credits (RECs) and Production Tax Credits (PTCs).

*F) Energy Storage*

The fuel costs for energy storage units are zero.

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*G) Solid waste, Bio-mass or Landfill gas*

Market Seller shall include the costs of such fuels when calculating a fuel cost even when the cost of such fuel is negative. However, cost offers for such units are not required to be less than zero. Market Seller shall identify how they account for Renewable Energy Credits (RECs) when applicable.

### **III. HEAT RATE AND PERFORMANCE FACTOR**

The Market Seller shall indicate the source and frequency of update for start-up, no-load, and incremental Heat Rates. Performance factors shall be provided to PJM. The Market Seller shall also indicate the method used in determining the performance factor and the frequency with which performance factors are updated. Performance factors can be modified by a seasonal performance factor to reflect ambient conditions. Either the unit's Heat Input curves or the Performance Factor must be updated annually.

### **IV. EMISSION ALLOWANCE COSTS**

Market Seller must state its method for determining the cost of CO<sub>2</sub>/ SO<sub>2</sub>/NO<sub>x</sub> emissions adders. This shall include:

- The type of emissions adders that are included in the cost-based offer.
- The source and frequency of updates for emissions rates.
- The source and frequency of updates for emissions allowances.
- Units with dual-fuel firing capability should use different emission allowance factors based on the CO<sub>2</sub>/ SO<sub>2</sub>/NO<sub>x</sub> emitted for each particular fuel or fuel mix.
- Emission allowance calculation must be provided to PJM each year during the Annual Review period using by updating COA.

### **V. INCREMENTAL ADJUSTMENT PARAMETER COST**

The Market Seller shall identify any other incremental costs associated with operating the unit that are included in the development of a unit's cost offer, and developed in accordance with Manual 15 and Schedule 2 of the Operating Agreement.

### **VI. INTRADAY OPTIONALITY**

Market Sellers must specify in their Fuel Cost Policy if they elect to opt-in to Intraday Offers. If a Market Seller plans to opt-in and opt-out periodically throughout the year, then the Fuel Cost Policy must describe how the fuel is priced when opting-in.

#### **Opt-In Language**

(Market Seller) will opt-in to Intraday Offers for the unit(s) referenced in this Fuel Cost Policy. (Market Seller) will validate cost-based offers during the operating day, and update their cost-based offer intraday if costs change from original cost input used to create the day-ahead cost offer. The Intraday validation will be completed within the time period beginning (HH:MM time-zone) and ending (HH:MM time-zone). Cost-based offers may be increased but must be decreased based on the updated commodity cost at the time of validation.

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(Market Seller) will validate and update the cost-based offer based on the following process: *(Describe Intraday validation and update process or refer to Monitoring Analytics template for guidance on update process).*

- *Intraday Validation – REQUIRED*
- *Secondary trigger, for a [% or \$] change in commodity cost for a specified time period, if applicable – NOT REQUIRED*
  - *Hot or Cold weather alerts*
  - *RTO load forecast greater than 125,000 MW in the winter months;*

Dual-fuel units that opt-in with oil or coal as a secondary fuel, are not required to update the secondary fuel cost schedule intra-day.

- *(Market Seller) will opt-in to Intraday Offers but not update cost-based offers intraday for the oil and coal based fuels.*

## VII. NUMERICAL EXAMPLE

All fuel cost policies for non-\$0 cost-based offers are required to provide a numerical example. Numerical examples shall include the following elements such that PJM or the IMM can accurately reconstruct the Market Seller's cost-based offer:

- **START COST**
  - The Market Seller shall provide an example of the Start Cost calculation in the numerical example. This example shall identify for each temperature state:
    - Start fuel (MMBtu)
    - Station Service (MWh)
    - Start Maintenance Adder (\$)
- **NO-LOAD COST**
  - Each unit's No-Load fuel cost shall be developed using a regression analysis from the unit's heat input curve. The Market Seller shall provide PJM and the MMU the No-Load Fuel (MMBtu) calculated. The Market Seller shall also provide an example of the No-Load Cost calculation. Any No-Load cost adjustments necessary to create a monotonically increasing incremental offer curve shall also be identified.

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## Revision History

Revision 1 (08/07/2019)

Author: Melissa Pilog

Reviewer: Glen Boyle

- To comply with FERC Order on VOM
  - VOM adder updated to Maintenance Adder and Operating Cost Adder
  - Other Fuel Related Cost Section removed from policies and replaced with submission of Operating Costs to PJM and the IMM via the VOM template
- Requirement added for fuel contract to be supplied when contract-related fees are added to the cost-based offer estimate (this is for validation of allowable costs)
- Requirement for a new Fuel Cost Policy to be submitted when entering into a new fuel supplier contract (this is so that PJM can verify that the fuel supplier is independent)

Revision 2 (08/16/2019)

Author: Jennifer Freeman

Reviewer: Melissa Pilog

- Rearrangement and additional clarity on each section
- Requirement for Combined Cycles to demonstrate that they are subtracting the net energy output of the CTs prior to ST synchronization when calculating start-up cost

Revision 3 (05/03/2023)

Author: Jennifer Warner-Freeman

Reviewer: Melissa Pilog

- Removed 10% adder section due to the adder being available to all cost-based offers
- Removed Documentation section as this language is now in Manual 15
- Removed \$0 Cost offer section because \$0 offers do not require a fuel cost policy
- Removed section for Variable Operation and Maintenance since VOM review is a separate process
- Added clarification in the Rebid and Intra-Day sections
- Added clarification about including REC and/or PTC information for fuel types other than wind
- Added clarification about the Start Cost calculation example to be provided in the numerical example