






Fuel Cost Policy

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Markets and Reliability Committee
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Action Required	Deadline	Who May Be Affected
<p>Communicate proposed changes to the Fuel Cost Policy process and penalty calculations</p> 	<p>2/20/2020</p> 	<p>Market Sellers</p> 

Based on a few years of experience with the Fuel Cost Policy (FCP) process, there are opportunities for potential improvements to the rules and processes governing Fuel Cost Policies.

- ❑ KWA#3: Explore potential enhancements to Fuel Cost Policy rules. Initial review suggests the following categories for enhancements to PJM’s fuel cost policies:
 - ❑ Requirement for zero marginal cost offer units (e.g., wind and solar) to have Fuel Cost Policies;
 - ❑ Requirement for self-scheduled units to have Fuel Cost Policies;
 - ❑ Need for Market Sellers, on an annual basis, to confirm that their annual Fuel Cost Policy remains compliant;
 - ❑ Lack of a penalty exemption and/or safe harbor for minor violations in a Market Sellers’ Fuel Cost Policy, and/or lack of appropriate crediting mechanism for a market-seller’s self-report of a potential Fuel Cost Policy violation.

- Main Motion: Joint Stakeholder
 - Endorsement: 87%
- Alternate Motion: PJM ICC
 - Endorsement: 81%

Proposed Changes	
	Main and Alternate Motion
Remove FCP annual review	X
Remove FCP requirement for zero marginal cost offer units	X
Remove Market Seller submission deadlines	X
Refine PJM/IMM review deadlines	X

Proposed Changes	
	Main and Alternate Motions
Remove Revocation Language	X
Allow PJM to expire approved FCPs	X
Temporary Fuel Cost Policy	X
Safe Harbor Provision	X
Penalty Calculation Components	
Market Seller Identified Error Factor (E)	0.25
Market Impact Factor (I)	1 or 0.10
Average Hourly LMP	Across duration of non-compliant offer
Average Hourly Available MW	Across duration of non-compliant offer
Market Impact Evaluation Period	Across duration of non-compliant offer

Joint Stakeholder

Full penalty (impact factor of 1) if:

- Unit clears DA or runs RT on cost-based offers AND paid DA/Balancing operating reserves
- Or, unit fails TPS test for constraints
- Or, cost offer is above \$1,000/MWh

PJM ICC

Full penalty (impact factor of 1) if:

- Unit clears DA or runs RT on cost-based offers AND is either
 - Paid DA/Balancing operating reserves or
 - **Marginal in DA or RT on its cost based offer**
- Or, unit fails TPS test for constraints
 - **Unless unit running on price-based schedule due to passing the TPS test at the time of commitment**
- Or, cost offer is above \$1,000/MWh

	MRC	MC
First Read	1.23.2020	
Endorsement	2.20.2020*	3.26.2020**

* **Note:** ‘Page turn’ review of manual and tariff changes prior to the MRC vote is scheduled for the MIC Special Session: Fuel Cost Policy on 1.29.2020

** **Note:** Manual 15 – Cost Development requires Members Committee endorsement and Board of Managers approval in accordance with Operating Agreement Schedule 2

Appendix

- Removal of the Fuel Cost Policy Annual Review
- Removal of Fuel Cost Policy Requirement for zero marginal cost offer units
- Removal of Market Seller Submission Deadlines
- Refining the PJM/IMM Review Deadlines
- Addition of Safe Harbor provision to cover deviation from Fuel Cost Policy due to force majeure

- Removal of Revocation Language
- Addition of expiration of approved Fuel Cost Policies due to change in circumstance
- Addition of Temporary Fuel Cost Policy
- Changes to Penalty Calculations
 - Addition of Market Seller Identified Error Factor to account for self report by Market Seller
 - Addition of Market Impact Factor
 - Modification to MW and LMP variables of equation

- Same as Joint Stakeholder Proposal except for Penalty Calculation
 - A unit that is marginal in Day Ahead Market or Real Time Market on its cost based offer will have the Impact Factor of 1
 - A unit committed on its price based schedule that later fails TPS test during its minimum run time or hours of its DA commitment would not have an Impact Factor of 1 unless other criteria are met

$$\Sigma \text{Penalty}_{dh} = \frac{\min(d, 15)}{20} \times \text{LMP}_h \times \text{MWh}$$

where:

- d (days) = 1, if Market Seller corrects non-compliant offer after notification from PJM or the IMM
- LMP_h = Average hourly LMP on last day of non-compliant offer
- MWh = Average hourly available MW on last day of non-compliant offer

$$\Sigma \text{Penalty}_{dh} = \frac{\min(d, 15)}{20} \times \text{LMP}_h \times \text{MW}_h \times E \times I$$

- LMP_h = Average hourly LMP **over duration of** non-compliant offer
- MW_h = Average hourly available MW **over duration of** non-compliant offer
- E (Market Seller Identified Error) = Discount equal to 0.25 if non-compliant offer is reported by Market Seller without inquiry from PJM or IMM.
- I (Market Impact Factor) = Discount equal to 0.10 if non-compliant offer did not have potential to impact market at any time during period of non-compliance