



**DATE:** July 29, 2014  
**TO:** CRSTF  
**FROM:** MMU  
**SUBJECT:** MMU Proposal

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The MMU's proposed approach to cost-based offer caps when fuel costs imply an offer greater than \$1,000 per MWh has several components:

1. Cost-based offers for an individual unit may be greater than \$1,000 per MWh when short run marginal costs of such unit exceed \$1,000 per MWh.
2. Market-based or price-based offers for an individual unit must be less than or equal to cost-based offers for such unit when cost-based offers are greater than \$1,000 per MWh.
3. Cost-based offers greater than \$1,000 per MWh include only short run marginal costs for each component of the offer including start up, no load and incremental costs.
  - a. Start costs are spread over the minimum run time of the unit.
4. Cost-based offers must include parameter limited schedules and must have start and notification times that are physically based.
  - a. The MMU has an ongoing review process for parameter limited schedules.
  - b. The MMU will review start and notification times associated with offers over \$1,000 per MWh.
5. Cost-based offers greater than \$1,000 per MWh will not include a ten percent adder or an FMU or AU adder
  - a. For example, the cost-based offer including a ten percent adder includes \$909.09 per MWh of costs and \$90.91 of adder per MWh.
  - b. As costs increase above \$909.09 per MWh, the ten percent adder decreases until it is zero at \$1,000 per MWh.
6. The gas cost index and the specific source of the gas cost index used by market participants to calculate cost-based offers for submission in the day-ahead market must be clearly defined.
7. Heat rates must be based on actual operating data during extreme weather for the same season either for the current season or the prior comparable season.
  - a. Heat rates must be submitted to the MMU at the beginning of each season.
  - b. MMU will review and agree or disagree with proposed heat rate.
  - c. The submitted heat rate is the sole responsibility of the generation owner.
8. All offers will be reviewed after the fact by the MMU.
9. The MMU will provide a report on the operation of such cost-based offers to PJM members after each season based on actual experience.