



DATE: December 2011
TO: All PJM Capacity Market Sellers Calculating Avoidable Cost Rates
SUBJECT: Guidelines for Escalating Avoidable Costs from Current Years to Future Delivery Years

RPM Auction participants who choose to develop their own Avoidable Cost Rate (ACR) are permitted to escalate actual recent calendar year cost data under PJM Open Access Transmission Tariff Attachment DD Section 6.8 (a) as described below:

6.8 Avoidable Cost Definition

(a) Avoidable Cost Rate:

The Avoidable Cost Rate for a Generation Capacity Resource that is the subject of a Sell Offer shall be determined using the following formula, expressed in dollars per MW-year:

Avoidable Cost Rate = [Adjustment Factor * (AOML + AAE + AME + AVE + ATFI + ACC + ACLE) + ARPIR + APIR]

Where:

- **Adjustment Factor** equals 1.10 (to provide a margin of error for understatement of costs) plus an additional adjustment referencing the 10-year average Handy-Whitman Index in order to account for expected inflation from the time interval between the submission of the Sell Offer and the commencement of the Delivery Year.

The average rate of increase for the most recent 10 years of the Handy-Whitman Index results in an escalation factor of 1.04080. The Handy-Whitman Index values are consistent with the PJM Tariff but are not included here due to copyright issues. Please note that this Adjustment Factor applies only to ACR components AOML, AAE, AME, AVE, ATFI, ACC and ACLE. It does not apply to ACR components ARPIR and APIR.

The escalation factor should be used as follows:

1. Start with the last year for which there is actual data.
2. Escalate that data for each subsequent year using the escalation factor.
 - a. For example, if the actual recent calendar year data was from 2011:
 - i. Apply the escalation factor to the actual 2011 data to get the 2012/2013 delivery year ACR.
 - ii. Apply the escalation factor to the result of the prior step to get the 2013/2014 delivery year ACR.
 - iii. Apply the escalation factor to the result of the prior step to get the 2014/2015 delivery year ACR.

- iv. Apply the escalation factor to the result of the prior step to get the 2015/2016 delivery year ACR.
3. The ACR calculation also includes an adjustment equal to 1.10 to provide a margin of error for understatement of costs:

$$\text{Avoidable Cost Rate} = [1.10 * (1.04080^n) * (\text{AOML} + \text{AAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{ARPIR} + \text{APIR}]$$

Where the ten-year average Handy-Whitman escalation factor is equal to 1.04080, and “n” is equal to the number of years between the actual data and the start of the delivery year.

For example, to calculate an ACR for delivery year 2015/2016 using 2011 actuals with a 10-year average Handy-Whitman escalation factor of 1.04080, the total Adjustment Factor is equal to $(1.10) * (1.04080^4)$, or 1.29081:

$$\text{Avoidable Cost Rate} = [(1.29081) * (\text{AOML} + \text{AAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{ARPIR} + \text{APIR}]$$