



**DATE:** December 2017  
**TO:** All PJM Capacity Market Sellers Calculating Avoidable Cost Rates  
**SUBJECT:** Guidelines for Escalating Avoidable Costs to Future Delivery Years

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RPM Capacity Market Sellers who choose to develop their own Avoidable Cost Rates (ACRs) are permitted to escalate actual recent 12 month cost data under PJM Open Access Transmission Tariff (OATT) Attachment DD § 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 + AFAE + AME + AVE + ATFI + ACC + ACLE) + ARPIR + APIR + CPQR]

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 most recent ten-year annual average rate of change in the Handy-Whitman Index results in an escalation factor of 1.02722. 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, AFAE, AME, AVE, ATFI, ACC and ACLE. It does not apply to ACR components ARPIR, APIR and CPQR.

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 is from 2017:
    - i. Apply the escalation factor to the actual 2017 data to get the 2018/2019 Delivery Year ACR.
    - ii. Apply the escalation factor to the result of the prior step to get the 2019/2020 Delivery Year ACR.
    - iii. Apply the escalation factor to the result of the prior step to get the 2020/2021 Delivery Year ACR.
    - iv. Apply the escalation factor to the result of the prior step to get the 2021/2022 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:

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

Where the “Escalation Factor” is equal to the most recent ten-year annual average rate of change in the Handy-Whitman Index, 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 the 2021/2022 Delivery Year using 2017 actuals with an escalation factor of 1.02722, the total Adjustment Factor is equal to  $(1.10) * (1.02722^4)$ , or 1.22475:

$$\text{Avoidable Cost Rate} = [(1.22475) * (\text{AOML} + \text{AAE} + \text{AFAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{ARPIR} + \text{APIR} + \text{CPQR}]$$