



**DATE:** September 24, 2015  
**TO:** PJM Members  
**FROM:** Joseph Bowring  
**SUBJECT:** Fuel Cost Policy Guidelines: Gas Replacement Cost

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Generation owners that choose to offer their gas fired units based on replacement cost should follow these guidelines:

- Replacement cost should be derived from a verifiable, algorithmic, systematic approach. The MMU must be able to replicate the calculations after the fact, by following the procedure outlined in the fuel cost policy. The fuel cost policy may include multiple approaches to the calculation of replacement cost that vary with verifiable, identifiable system and market conditions.
- Replacement cost should be for an identified gas region for which there is a reported regional index of delivered prices.
  - Units in a location without a reported regional index of delivered prices should select the closest reported regional index and include any applicable transportation costs to the unit location. For example, units located behind a gas LDC should include the reported index most representative of the LDC city-gate and defined additional tariff transportation costs.
- Generation owners should use the available reported data consistent with the data used to construct the regional indices as their base replacement cost. For example a price that is within the current day's applicable index trading range on ICE prior to the day-ahead energy offer submission.
  - The regional index values (e.g. Platts and ICE) are not posted until late in the day.
  - The base replacement cost may be adjusted using an algorithmic, verifiable and reproducible method.
- For days when price discovery is limited, e.g. if there are no bid/offers on ICE for a generator's location, the base replacement cost must be based on the closest publicly available reportable regional index plus any applicable transportation charges.
- Alternative regional indices may be utilized if a generation owner can demonstrate the applicability of such index. For example a generation owner may use a Gulf Coast index if they own firm transportation from that region to their unit's location. If a generation owner uses a method relying on firm transportation, the MMU will request a copy of the contract.
- If the base replacement data are not publicly available, the value used must be verifiable and supportable. Examples of methods are: a screen shot from ICE or NYMEX demonstrating that no data are available; documented offers from three independent third parties, e.g. IM; email; recorded conversation; or an electronic NAESB confirmation of a purchase made prior to energy offer.

- All documentation supporting fuel cost components used must be saved. The MMU will request such documentation periodically or when the MMU has questions about specific offers.
- The fuel cost policy must include a calculation of the development of the replacement fuel cost used in an actual eMKT offer for a specific unit and date in order to illustrate the method. The date should be one where gas price volatility created uncertainty around the purchase cost. The calculation should include the index starting price and any additional transportation or other charges with all components shown separately. This example should illustrate the methodology used to adjust the base replacement cost and be verifiable.