

Hourly Offer Order Compliance Filing and Manual 15: Fuel Cost Policies and Cost Offers

MIC Special Session
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IMM Position

- **Market power monitoring is IMM's responsibility**
 - Market power monitoring is not PJM's responsibility.
- **Fuel cost policies, review of cost offers, Manual 15**
 - Sole purpose is market power monitoring
- **PJM proposes to evaluate level of cost offers**
 - This is market power monitoring.
 - Violates Section 12A of PJM Tariff
- **PJM excludes IMM from determination of penalties in proposed Schedule 2**
 - Fails to comply with June FERC order, P63
 - PJM flow chart does not reflect appropriate IMM actions

Market Power Mitigation Goals

- **Market efficiency in the PJM markets requires market power mitigation to cost based offers that do not reflect market power.**
 - Energy cost offers = Short run marginal costs
- **Inputs to PJM's market power mitigation (TPS)**
 - Cost based offers
 - Manual 15
 - Fuel Cost Policies
- **Goal: inputs consistent with short run marginal cost to achieve market efficiency**

June 2016 FERC Order

In paragraph 63, FERC's order establishes:

- (1) a requirement for market participants to submit fuel cost policies that are approved by PJM prior to submission of cost-based offers, and**
- (2) a penalty structure that will be applicable in the event that PJM or the IMM determines that a resource has submitted a cost-based offer that does not comply with Schedule 2 of the Operating Agreement or the Cost Development Guidelines in Manual 15**

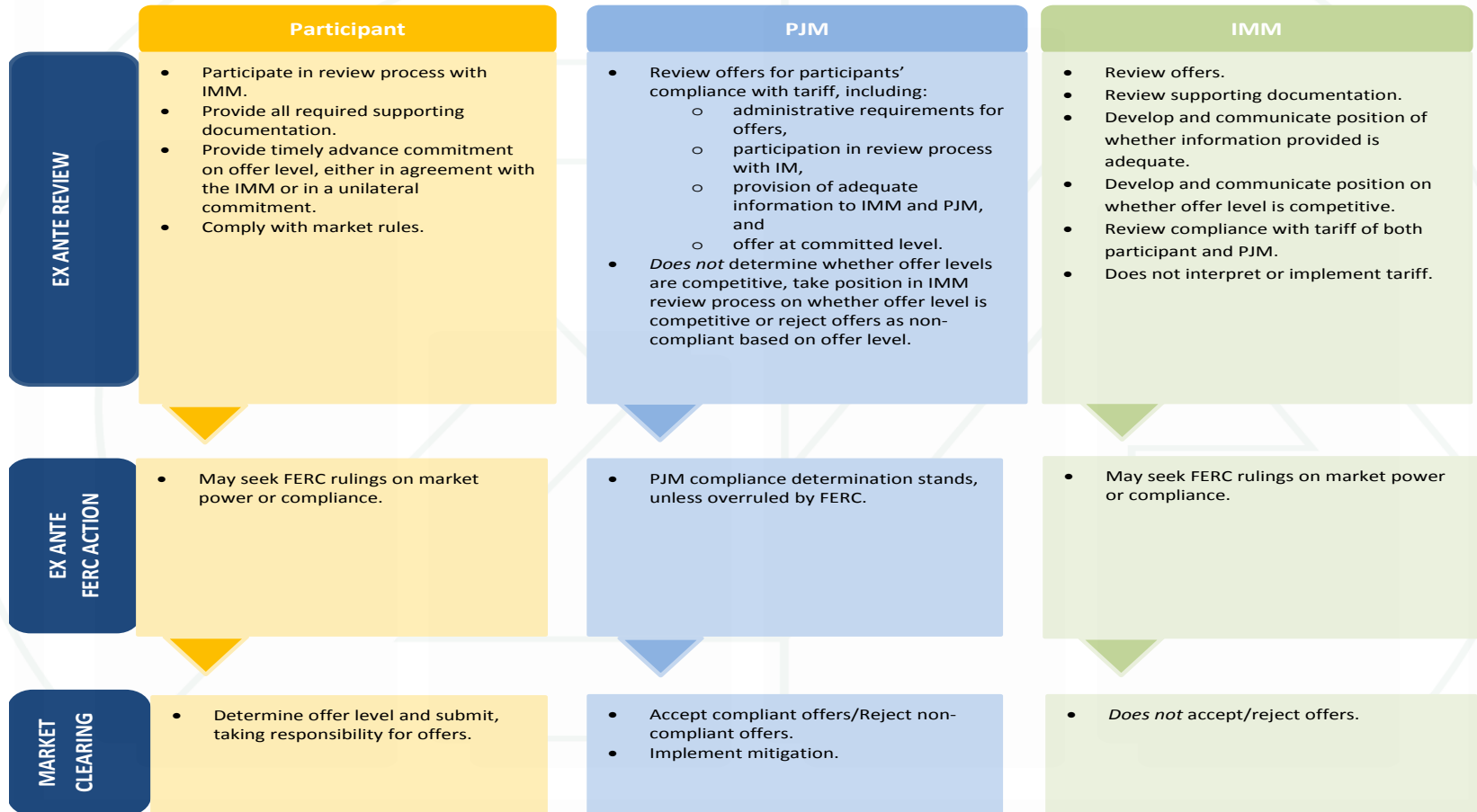
Compliance Filing Objective

- **Tariff, Operating Agreement, and Manual 15 to go as far as possible to minimize the reflection of market power in fuel cost policies and cost offers**
- **Tariff changes to meet objective:**
 - **Short run marginal cost requirement**
 - **Verifiable, algorithmic, systematic fuel cost policies**
 - **All data needed to verify level of cost offer components supplied via MIRA**

Roles for Compliance Filing

- **Distinct roles for IMM and PJM**
 - Neither overrules the other's fuel cost policy review or cost offer penalties
- **PJM Compliance Review (OATT 12A)**
 - Correct elements included in fuel cost policy
 - Fuel cost policy required for submitting cost offers
 - Participation in IMM review required
 - Correct elements included in offer
 - No evaluation of level of offer
- **IMM Market Power Review (OATT Attach. M)**
 - Application of Schedule 2 and Manual 15
 - Level of cost components and cost offer
 - Market power considerations

Comparison of Participant/PJM/IMM Roles



Why clarify distinct roles?

- **Distinct roles required by PJM Tariff**
- **Costly duplication of effort**
- **Both reviewing parties' authorities weakened by other's evaluation of the same issue**
- **Stronger IMM position of independence**
 - **PJM intervening on behalf of members to get a more favorable outcome**
- **Comparative advantages**
 - **PJM tools to implement Tariff compliance with offer acceptance using Markets Gateway**
 - **IMM expertise and experience around competition, market power, marginal costs, analytics**

IMM Fuel Cost Policy Review

- **Does the policy reflect, or provide the opportunity to reflect, market power?**

For Compliance Filing

- **Market Seller requirements (Schedule 2)**
 - **Submit fuel cost policy in MIRA**
 - **Construct verifiable, algorithmic, systematic policy**
 - **Participate in IMM review of policy**
- **IMM Requirements (Attachment M)**
 - **Review all fuel cost policies**
 - **Inform FERC Office of Enforcement of concerns**
 - **Inform PJM of assessment**
 - **Use fuel cost policy in cost offer review**

IMM Cost Offer Review

- **Does the cost offer reflect short run marginal cost?**

For Compliance Filing

- **Market Seller requirements (Schedule 2)**
 - **Maintain accurate data in MIRA sufficient to replicate cost offers**
 - **Cost offers with inputs consistent with fuel cost policy**
 - **Cost offers consistent with short run marginal cost**
- **IMM Requirements (Attachment M)**
 - **Verification of short run marginal costs**
 - **Inform PJM of need for penalty for cost offer not reflecting short run marginal cost**

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OATT § 12A

- **The Office of the Interconnection determines whether an offer, bid, components of an offer or bid, or decision not to offer a committed resource complies with the PJM Market Rules. The Office of the Interconnection has the final authority to determine whether an offer, bid or decision not to offer a committed resource complies with the PJM Market Rules. The Office of the Interconnection may accept an offer, bid or decision not to offer a committed resource regardless of whether the Market Monitoring Unit has made a finding that such conduct raises market power concerns, unless the Commission issues an order determining that the offer or bid must be rejected prior to the clearing of the relevant RPM Auction.**
- **The Office of the Interconnection does not make determinations about market power, including, but not limited to, whether the level or value of inputs or a decision not to offer a committed resource involves the potential exercise of market power. Acceptance or rejection of an offer or bid by the Office of the Interconnection does not include an evaluation of whether such offer or bid represents a potential exercise of market power.**

OATT § 12A

- **A market participant may submit any offer or bid that it chooses or make a decision not to offer a committed resource, provided that the Office of the Interconnection determines that: (i) the market participant has participated in the review process conducted by the Market Monitoring Unit (without regard to whether an agreement is obtained) if required by the Tariff; (ii) offer is no higher, in the case of seller market power, or lower, in the case of buyer side market power, than the level to which the market participant has committed or agreed in the course of its participation in such review process; and (iii) the offer is compliant with the Tariff and PJM Manuals. The market participant assumes exclusive responsibility for any adverse findings at the Commission related to its offer.**
- **The Office of the Interconnection has the exclusive authority to administer the Tariff. The Office of the Interconnection has the exclusive authority to implement the PJM Market Rules, except with respect to Attachment M and the Attachment M-Appendix and related provisions in the PJM Manuals. The Market Monitoring Unit has the exclusive authority to perform the functions set forth in Attachment M and the Attachment M-Appendix. The Office of the Interconnection shall oversee compliance with PJM Market Rules and may take action on compliance issues and/or request that the Market Monitoring Unit take action on compliance issues.**

OATT Attachment M § IV.E-1

- **Determinations about market power are the responsibility of the Market Monitoring Unit under Attachment M and Attachment M–Appendix. The Market Monitoring Unit shall review all proposed sell offers for a determination of whether they raise market power concerns. The Market Monitoring Unit shall determine whether the level of offer or cost inputs raises market power concerns. The Attachment M–Appendix sets forth the Market Monitoring Unit’s role in evaluating these offer or cost inputs. The Market Monitoring Unit and market participants shall, in accordance with the applicable procedures and as set forth elsewhere in the Tariff, attempt to come to agreement about the level or value of offers or cost inputs. The Market Monitoring Unit shall make a determination about whether offer or cost inputs or a decision not to offer a committed resource is physical or economic withholding or otherwise involves a potential exercise of market power. In the event that a market participant determines to use an offer or cost input at a level or value that the Market Monitoring Unit has found to involve a potential exercise of market power, the Market Monitoring Unit may file a petition or initiate other regulatory proceedings addressing the issue. If the potential exercise of market power is related to a Sell Offer submitted in an RPM Auction, the Market Monitoring Unit may file a complaint with the Commission addressing the issue. If, at the time of filing, market prices that have been settled and posted could be impacted by the subject of the complaint, the Market Monitoring Unit shall refrain from requesting relief from the Commission that would upset such market prices and shall limit the requested relief to appropriate restitution and/or penalties from the implicated market participant or participants.**