Cost-based Offer Calculator Proposal

MIC

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IMM

Monitoring Analytics

Cost-based Offer Responsibility

- **OA Schedule 1, Section 6.4.2(d)**

  Market Participants shall have exclusive responsibility for preparing and submitting their offers on the basis of accurate information and in compliance with the FERC Market Rules, inclusive of the level of any applicable offer cap, and in no event shall PJM be held liable for the consequences of or make any retroactive adjustment to any clearing price on the basis of any offer submitted on the basis of inaccurate or non-compliant information.

Cost-based Offer Responsibility

- **Generators have the responsibility to determine their own costs correctly.**
- **Having PJM publish cost-based offer calculations shifts responsibility for developing the correct cost from the Market Seller to PJM.**
- **If the generator wants to mirror PJM's calculation, the goal shifts away from determining accurate costs, to copying PJM's method.**
- **First step toward fully shifting responsibility to PJM.**
- **The IMM has its own responsibility (OATT, Attachment M) to review and calculate cost-based offers.**

Multiple Cost Calculations

- **Three calculations would be required under the generators' proposal:**
  - **Market seller**
  - **IMM**
  - **PJM**
- **Experience with the opportunity cost calculator shows that competing calculators cause confusion.**
- **Market sellers have different practices, different calculations and different generating equipment.**
- **A lot of complexity involved in attempting to replicate calculations.**

Costly Proposal

- **Maintaining accurate cost calculations for more than 700 units would be a costly task for PJM.**
- **PJM would need several full time staff members to support accurate and complete calculations.**
- **PJM would need to incur IT related costs.**
- **PJM would need to upgrade Markets Gateway.**
- **PJM has not provided a cost estimate for their proposed approach.**

No Benefits

- **The cost calculator is limited to validating calculations.**
- **This validation can be performed by Market Sellers in a spreadsheet.**
- **There is no added value from an expensive cost calculator proposal.**
- **PJM cannot validate fuel costs because PJM does not have updated fuel costs.**
- **PJM has offered no rationale for agreeing to implement this proposal.**

Purpose of Generator Proposal

- **The real intent of this generator proposal is to develop a calculator that can be used by PJM to calculate reference levels (as in ISO-NE).**
- **Reference levels are generic costs used in place of actual unit specific costs in setting offer caps.**
- **PJM does not know and cannot know the fuel costs of generators in real time. For example, bilateral transactions are common in times of market stress.**
- **PJM will face incentives to overstate fuel costs in the absence of actual information.**
- **Reference pricing will erode market power mitigation and will eliminate a well functioning fuel cost policy process.**

IMM Recommendation

- **The IMM recommends that PJM not create a cost-based offer calculator.**
- **The IMM recommends:**
  - **Better training for generation owners.**
  - **Better documentation of cost calculation methods. (Manual 15)**
  - **Better validation processes implemented by generation owners.**

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