# *[Unit/Company]* Fuel Cost Policy: Oil

*General Instructions:*

*This template was developed by Monitoring Analytics to aide Market Sellers in the development of fuel cost policies that meet the IMM’s standards.*

*This template covers a range of fuel cost calculation methods for oil-fired resources. Modifications to this template, including removal of provisions that do not apply, can be made in order to meet specific needs. Modifications will be evaluated by the IMM for consistency with the IMM’s standards.*

*The template contains text in italics and/or brackets that should be completed or that provide clarifying instructions.*

*All costs included in this template must be short run marginal costs. The short run marginal cost of energy is the incremental cost of producing one more MWh of energy. It includes the cost of fuel, the cost of emissions allowances, volumetric taxes on fuel purchases or subsidies. Short run marginal costs do not include long term variable, fixed or avoidable costs incurred for fuel supply.*

*Before submitting the final version of this document, please remove any of the instructions in brackets and the “draft” watermark.*

# Oil Cost Development

## General Overview

The Market Seller shall develop their oil costs based on *[select one of these two: an inventory method or replacement cost. The sections in this policy must be consistent with this selection]*. The defined oil cost is the expected cost of oil at the time that the day-ahead energy offer is submitted to PJM prior to the close of Day-Ahead Energy Market for the operation of the unit during the next operating day, which runs from 00:00 to 24:00.

## Inventory Cost

*[Describe method, LIFO, FIFO or volume weighted average, oil type, and oil characteristics. A numerical example of the latest inventory cost calculation, including all deliveries by contract, volume, commodity cost, transportation costs and previous consumption would be appropriate. Any fuel providers affiliated with the Unit Owner or Market Seller should be noted. Include frequency of updating costs.]*

## Replacement Cost

### Contract Based

*[Describe method. For example, replacement cost is based on the weighted average of fixed price transactions for next month delivery. Provide a summary table in the numerical example spreadsheet of all current contracts including oil type, oil characteristics, supplier, term, volume, commodity cost and any other appropriate information relevant to the fuel cost development. Any fuel providers affiliated with the Unit Owner or Market Seller must. Include frequency of updating costs.]*

### Spot Market Based

*[Describe method. For example, replacement cost is based on prompt quarter for the applicable trading location.]*

*[Include publication source, trading locations oil type and characteristics. For example, New York Harbor ULSD published in Platts US Marketscan. Include frequency of updating costs.]*

## Transportation Costs

*[Describe and explain in detail the components and method for calculating transportation cost, as well as frequency of updating. Provide separate calculations in the numerical example spreadsheet by contract as applicable. Indicate details of related transportation arrangements that result in short run marginal costs.]*

## Oil Heat Content

*[Include how the oil heat content is calculated.]*

# Heat Input

*[Task: Complete all columns below. If the unit does not use a heat input curve, please replace with the actual method used. If the unit is offered with an average heat rate, state that the unit is offered with an average heat rate instead of using incremental heat rates and a separate no load heat.]*

*[Indicate if the unit is offered with a slope or step function.]*

|  |  |  |
| --- | --- | --- |
| **Component** | **Source** | **Update Frequency** |
| Heat Input Curve | Performance test | Annually |
| Startup Heat | Performance test | Annually |

## Performance Factor

*[Task: If a performance factor is not used delete bullets below and state that the performance factor is always equal to one (1)].*

* Performance Factor Update Frequency: *[Monthly].*
* Performance Factor Source: *[Describe how performance factor is calculated].*
* Performance Factor Method: *[Total Fuel, Separate, Fixed Start Approach. See PJM Manual 15 section 2.2.3 for details].*

# Emissions

*[Select one of the following methods. If neither of these methods apply, please specify and describe method used*

*Method 1: Emission costs are based on replacement cost method. The applicable emission allowance cost will be equal to or less than the most recent midpoint for the current year at the time the cost-based offer was made.*

*Method 2: Emission costs are based on actual transactions. The applicable emission allowance cost will be equal to or less than the volume weighted average of all transactions for the current year.]*

*[Task: Complete all columns below. If emission cost is not used in offer then type NA and delete table. The content of the table below are examples.]*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Pollutant** | **Emission Rate Source** | **Emission Rate Update Frequency** | **Emission Allowance Source** | **Emission Cost Update Frequency** |
| CO2 | CEMS | Annually | Platts | Daily |
| NOX | CEMS | Annually | Platts | Daily |
| SO2 | CEMS | Annually | Platts | Daily |

# Intraday Offers Optionality

*[Instruction: All Market Sellers must decide whether to opt to use intraday offers. This selection must be consistent with PJM Manual 11 rules regarding intraday offers optionality.]*

*[Opt in: If the Market Seller opts to update offers in real time, the Market Seller will have to define the conditions and time(s) of day under which they have the option in this section and the fuel cost policy must contain a section for intraday updates. All offer updates must follow the Market Seller defined conditions. Cost-based offers must be verified using the same conditions. The following is language for opting in.]*

The Market Seller opts to update offers intraday under the following conditions:

1. *[Market Seller defined condition and time(s) of day]*

The method used to update cost-based offers intraday is defined in the Intraday Updates section *[refer to the natural gas policy template for an example of an Intraday Updates Section]* and must be applied under the same conditions and at the same times as the option to update offers intraday.

*[Opt out: If the Market Seller opts not to update offers in real time, the fuel cost policy must not contain a section for intraday updates. The following is the language for opting out.]*

The Market Seller opts to not update offers intraday.

# Documentation

The Market Seller will maintain all documentation needed to verify cost-based energy offers. The documentation may include invoices, contracts, screenshots, instant messages, text messages, emails or recorded phone calls. This information may be requested by PJM or the IMM to verify the development of cost-based energy offers.

# Cost-Based Offer Numerical Example

*[Please provide spreadsheet with numerical example for a recently submitted cost-based offer. Specify date for current units. The example should include the following items when applicable:*

* *Separate calculations for the start costs, no load cost, and the entire incremental cost curve.*
* *Start heat input, no load heat input, segment incremental heat rates and heat input curve.*
* *All components of the Total Fuel Related Cost (TFRC) must be defined separately: commodity fuel price, transportation, other delivery charges, and other fuel related costs such as fuel handling or third party supplier fees.*
* *VOM costs in $ per start, $ per MMBtu, $ per MWh or $ per hour, if used in the calculation of the cost-based offer.*
* *Ten percent adder, FMU adder (if eligible) or opportunity cost adder (if eligible) if any of these adders are used in the calculation of the cost-based offer.*
* *Pollutant emission rates and assumed Emission Credit Allowance prices]*