

## Potential Compromise Proposal

### Maximum Cost-Based Offer: Generally

Status Quo (Incremental capped at the lower of \$1,000/MWH or production cost + 10%; marginal cost of producing energy; generally fuel costs, plus Variable Operations & Maintenance (per M15)), except ~~during Max Emergency Generation Alerts~~ when actual costs are demonstrated to be above \$1000/MWH.

### Cost-Based Offers In Day-Ahead Market:

Cost-Based offers above \$1000/MWH submitted and cleared in the Day-Ahead Market and offers submitted during a manual commitment by PJM of the unit above \$1,000/MWH do not set LMP. However, if such a cost-based offer clears in the Day-Ahead Market, the clearing price in the Day-Ahead Market will be set at \$1000/MWh and generation costs for production of energy above \$1,000/MWH will be recovered via the existing PJM Manual 11 procedure for cost reimbursement, as follows:

~~During a Max Generation Alert, f~~For a market participant to recover its actual costs above \$1000/MWH, the resource must submit a notice to PJM indicating that its costs of operation exceeded the \$1,000/MWH cap by following the procedure in Attachment C of Manual 11 requiring an email to market\_bids@pjm.com by 12:00 noon of the business day following operation. To document costs of operation above \$1,000/MWH, within 45 days of operation, a market participant shall submit proof of costs including, for example, fuel supply invoices and gas pipeline meter statements, to PJM and the IMM.

PJM and the IMM, in computing whether a generation unit's fuel expenditures, reflecting the actual heat rate experienced by the unit and a 10% adder exceeded a level equivalent to \$1,000 per MWH, shall utilize the following methodology in determining a market participant incurred costs:

Actual Costs = production cost + 10%; marginal cost of producing energy; generally fuel costs, plus Variable Operations & Maintenance (per M15).

### Cost-Based Offers In Real-Time Market

Cost-Based offers between \$1000/MWH and ~~\$[ ]~~\$1,400/MWH submitted for the Real-Time Market will set LMP if the unit is instructed to run by PJM. Generation costs for production of energy above ~~\$[ ]~~\$1,400/MWH in the Real-Time Market will be recovered via the existing PJM Manual 11 procedure for cost reimbursement, as stated above.

All cost-based offers above \$1000/MWH will be subject to review by PJM and the IMM to assure adherence to established cost development guidelines found in PJM Manual 15. To the extent PJM and the IMM determine that an accepted offer above \$1000/MWh must be modified, the Office of the Interconnection shall follow the notification and re-posting timelines provided for in OA Section 1.10.8(e).

**Maximum Market-Based Offer:**

Capped at \$1000/MWH

**10% Adder:**

In situations where the actual fuel cost of the unit is not final at the time of the offer, the cost offer and the actual cost of energy when a resource operated at a cost above \$1000/MWH may include a 10% adder of the cost-based offer or the actual production cost, as applicable. FMU and AU adders do not apply to cost-based offers above \$1000/MWh.

**Reporting:**

Should cost-based offers exceed \$1000/MWH, the IMM would provide a report, within 30 days and on an aggregate basis, to stakeholders.

**Shortage Pricing:**

PJM commits to initiate an evaluation of, and a stakeholder process to discuss, whether current Shortage Pricing rules remain valid in light of recent developments, including the *EPSA v. FERC* decision and pending and proposed changes to the Reliability Pricing Model construct. PJM commits to filing with FERC, no later than \_\_\_\_\_, 2015, either a proposal to change the current Shortage Pricing rules or an informational report on why current Shortage Pricing rules remain necessary and appropriate.