Energy Offer Verification FAQs

To comply with FERC Order 831, effective November 1, 2017 (*pending FERC approval), PJM is implementing a verification process for cost-based incremental offers with any segments above $1,000/megawatt-hour to ensure a resource's cost-based incremental energy offer reasonably reflects actual or expected costs.

Order 831 Offer Cap Requirements:

- A resource's incremental energy offer must be capped at the higher of $1,000/MWh or the resource's cost-based incremental energy offer. For the purpose of calculating Locational Marginal Prices, cost-based incremental energy offers must be capped at $2,000/MWh.

- The costs underlying a cost-based incremental energy offer above $1,000/MWh must be verified before it can be used to calculate Locational Marginal Prices. If a resource submits an incremental energy offer above $1,000/MWh and the costs underlying that offer cannot be verified before the market clearing process begins, the offer may not be used to calculate Locational Marginal Prices and the resource would be eligible for a make-whole payment if that resource is dispatched and the resource's costs are verified after-the-fact. A resource would also be eligible for a make-whole payment if it is dispatched and its verified cost-based incremental energy offer exceeds $2,000/MWh.

- All resources, regardless of type, are eligible to submit cost-based incremental energy offers in excess of $1,000/MWh.

1. **Who is required to have their Cost-Based Incremental Energy Offer verified?**
   Market Sellers that submit an Incremental Energy Offer greater than $1,000/MWh for a generation or demand resource will be subject to a verification process, which includes a screen for reasonableness, and if necessary, an exception process to verify the accuracy of the offer.

2. **What is the trigger to verify offers greater than $1,000/MWh?**
   Market Sellers that choose to submit an Incremental Energy Offer greater than $1,000/MWh are required to:
   a. Submit all offer segments in Markets Gateway equal to $1,000/MWh
   b. Submit an Offer Verification request in SharePoint (sharepoint.pjm.com) by uploading the offer template for screening.

3. **What is the difference between the offer screening and the exception process?**
   Any submitted offer greater than $1,000/MWh is required to be verified for reasonableness. The initial screening process is conducted at the time the offer is initially submitted. It calculates a Maximum Allowable Incremental Cost using the unit's heat rate curve and commodity index pricing, plus a margin, to assess the reasonableness of the offer. The portion of an offer that passes the offer screen will be deemed eligible to set LMP. If a resource's offer passes the offer screen it does not mean that the offer has automatically been found to be compliant with its Fuel Cost Policy.

If all or a portion of an offer does not pass the offer screen, the Market Seller must enter the exception process to justify those portions of the offer before they can be made eligible to set LMP or to be made-whole to the submitted offer value. The exception process is a more-detailed review of the offer which requires evidence of commodity and unit costs. During the exception process a resource will have to demonstrate compliance with their Fuel Cost Policy and cost offer development guidelines before the offer can be verified for use in dispatch and LMP, as well as for use in make-whole calculations.

4. **How do I submit an Energy offer greater than $1,000/MWh?**
   Effective November 1, 2017, Markets Gateway will not accept offers greater than $1,000/MWh.
   - November 2017-March 2018: For any offer greater than $1,000/MWh:
     - Enter your offer in Markets Gateway with all segments equal to $1,000/MWh, and
     - Complete of the first three sections of the energy offer verification template being sure to include your incremental energy offer curve [Price & MW pair],
     - Submit an offer verification request by uploading the completed template into SharePoint.
       - Separate templates for each schedule and fuel type must be uploaded.
   - Post-March 2018:
     - Markets Gateway will accept cost-based incremental energy offers greater than $1,000/MWh, and will automatically screen any offers submitted greater than $1,000/MWh.
     - If your offer does not pass the automatic verification screen embedded in Markets Gateway, Market Sellers will be notified and must send an exception request in SharePoint for verification.
       - The exception request must include the energy offer verification template, with tabs 1-3 completed, and documentation to support actual fuel and unit costs attached to the email.
   - Contact EnergyOfferVerification@pjm.com with questions about submission.

5. **If my offer greater $1,000/MW does not pass the offer screen, what value will be used in dispatching my resource and setting LMP?**
   - If no offered segments pass the initial screen, the unit's offer is capped at $1,000
   - If some offered segments pass the screen, the unit is capped at the higher of $1,000 or at the highest verified segment. If the unit is capped at the highest verified segment, that highest verified segment will be extended to all subsequent segments on the curve.   .

6. **Do incremental offer curves that include segments over $1,000/MWh have to follow the PJM-approved Fuel Cost Policy?**
   All cost-based offers must be submitted in accordance with the PJM-approved Fuel Cost Policy. The initial offer curve submitted for verification must follow the approved FCP. If the offer is not verified, Market Sellers may resubmit an updated offer curve, but may be assessed a penalty for not following their FCP.

7. **If my cost-based incremental offer is not verified in time to set LMP, will I be made whole to my offered or actual costs?**
Cost-based energy offers that are greater than $1,000/MWh, and are verified during or after the operating hour, may be eligible to receive Operating Reserve credits for their offered cost for that resource. For verified offers greater than $2,000/MWh, Operating Reserve credits may awarded for actual costs incurred. More information on make whole eligibility is provided in Attachment D of Manual 11.

8. **How are my unit's Heat Rate and VOM costs included in the screening or exception process?**
Market Sellers are required to submit their unit cost and heat rate information into the COA (Cost Offer Assumption) application administered by the Market Monitor. Unit cost information is provided to PJM and considered in the exception formula that calculates the Maximum Allowable Incremental Cost.

9. **Are self-scheduled resources eligible for Balancing Operating Reserves?**
Pursuant to Manual 28, only pool-schedule resources are eligible for Balancing Operating Reserve credits and therefore self-scheduled resources are not eligible. However, self-scheduled resources that submit their offer verification exception request, and are verified prior to the start of the next operating hour will be included in the market solution.

10. **Can a cost-based offer greater than $1,000/MWh include the 10% adder?**
The 10% adder for cost-based offers greater than $1,000/MWh is capped at $100/MWh. The 10% adder for cost-based offers greater than $2,000/MWh is capped at $0/MWh.

11. **Are Fuel Cost Policies used for offer verification?**
Cost-based offers greater than $1,000/MWh will be verified against the approved Fuel Cost Policy.

12. **Which price hub will be used for screening cost-based offers?**
For the initial screening process, PJM will assign each unit a pricing hub by geographical location. For the exception process, PJM will use the pricing hub(s) identified in the approved Fuel Cost Policy.

13. **Who do I contact with questions or to schedule a conference call with PJM?**
Please contact EnergyOfferVerification@pjm.com with any questions related to submitting offers greater than $1,000/MWh. If you have questions related to your Fuel Cost Policy, or would like to schedule a call to discuss you current policy, please contact FuelCostPolicyAnalysis@pjm.com.