



# Maintenance and Operating Cost (VOM) Adder Review Guidelines

PJM Interconnection Version 0: 5/15/2020

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## INTRODUCTION

This document is intended to provide general guidance for the review of Maintenance and Operating Cost Adders. The provisions in PJM's Operating Agreement, Schedule 2 allow Market Sellers to include Maintenance and Operating Cost Adders as components of the cost-based energy offer. Market Sellers must submit these adders to PJM, at least annually, for review and they must be changed if they are no longer accurate. Detailed descriptions of allowable costs are contained in Manual 15 "Cost Development Guidelines".

Maintenance Adders are expenses directly related to electric production and must be a function of starts and/or run hours. Allowable expenses may include repair, replacement, and major inspection, and overhaul expenses including variable long term service agreement expenses. Operating Costs are expenses related to consumable materials used during unit operation and include, but are not limited to, lubricants, chemicals, limestone, trona, ammonia, acids, caustics, water injection, activated carbon for mercury control, and demineralizers usage. Maintenance Adders and Operating Costs cannot include any costs that are included in the generation resource's Avoidable Cost Rate pursuant to Tariff, Attachment DD, Section 6.8(c).

The combination of Maintenance and Operating Cost Adders is often referred to as Variable Operating and Maintenance costs (VOM).

Market Sellers submit Maintenance and Operating Cost Adders to PJM for review using the templates posted at <https://www.pjm.com/markets-and-operations/energy/fuel-cost-policies.aspx>.

## MAINTENANCE ADDER TEMPLATE

### *MAINTENANCE ADDER TEMPLATE – UNIT INFORMATION*

Market Sellers shall provide the Market Seller's Company Name, Contact Name, Contact Email, Contact Phone Number and Market Unit ID and Name as requested.

### *MAINTENANCE ADDER TEMPLATE – SECTION 1*

#### *Allowable Expenses*

Market Sellers should list all maintenance expenses from the previous year that are directly related to electrical production. This can include repair, replacement, inspection, and overhaul expenses, including Long Term Service Agreements (LTSA), related to the:

- steam turbines
- generators
- boilers
- HRSGs
- main steam
- feed water
- condensate
- condensers
- cooling towers
- transformers
- control systems
- fuel systems

Combustion turbine and combined cycle plants can include repairs, replacements, major inspections, and overhaul costs related to the gas turbines and steam turbines.

Expenses should be listed by category, project, maintenance activity, and/or FERC account and include a short description of the maintenance activities included.

LTSA's must be provided to PJM and the IMM in accordance with the Manual 15 Section 1.8 Cost Methodology and Approval Process. LTSA costs can be included if they are variable costs based on either operating hours or number of starts and the dollar value is set specifically in the LTSA. LTSA costs must be incurred before they can be included (i.e. 2019 and prior).

#### *Major Overhauls & Inspections*

(a) Major inspections and overhauls of gas turbine and steam turbine generators include, but are not limited to, the following costs:

- turbine blade repair/replacement
- turbine diaphragm repair
- casing repair/replacement
- bearing repair/refurbishment
- seal repair/replacement and generator refurbishment
- heat transfer replacement and cleaning
- cooling tower fan motor and gearbox inspection
- cooling tower fill and drift eliminators replacement
- Selective Catalytic Reduction (SCR) and CO Reduction Catalyst replacement
- Reverse Osmosis (RO) cartridges replacement
- air filter replacement
- fuel and water pump inspection/replacement

(b) Major maintenance of gas turbine generators directly related to electric production include, but are not limited to:

- compressor blade repair/replacement
- hot gas path inspections, repairs, or replacements

(c) Major maintenance of steam turbine generators directly related to electric production include, but are not limited to:

- stop valve repairs
- throttle valve repairs
- nozzle block repairs
- intercept valve repairs

### *Un-allowable Expenses*

Market Sellers cannot include any fixed costs that can be included in the unit's capacity offer or Avoidable Cost Rate (ACR). Examples including maintenance expenses related to auxiliary systems like buildings, HVAC, compressed air, closed cooling water, heat tracing/freeze protection, and water treatment cannot be included if the system is needed to remain in-service when the unit is not in operation.

Expenses for repairs and or replacements due to weather events also cannot be included in a unit's maintenance history. Items that have failed, for example, due to a lightning strike or external weather corrosion are not directly related to electric production.

### *Labor Expenses*

Market Sellers cannot include normal plant staffing labor in maintenance expenses, as these costs are included in the unit's capacity offer. Only staff overtime and/or contractor labor related to maintenance activities can be included.

### *FERC Accounts*

Market Sellers can use FERC account expenses if they are directly related to electrical production. Market Sellers using FERC Accounts must remove straight-time labor expenses from the accounts as those costs are typically included in the unit's capacity offer. Some FERC accounts may include items that may not be included in the cost-based offer and these expenses must be removed in the Maintenance Adder submission. Please note that FERC accounts do not define whether costs are includable in energy market cost-based offers.

### *Configuration Addition Maintenance Adder*

Market Sellers that are using configuration addition maintenance adders should submit incremental costs and historical data as a separate sheet of the Multi-sheet Template.

### *Supporting Documentation*

Market Sellers must submit supporting documentation for the current year's costs. Acceptable supporting documentation includes work orders from the maintenance management system, maintenance records, invoices, time sheets, and or procurement card receipts. Work order descriptions should be detailed enough to determine if the items are directly related to electric production.

### *Operating Costs*

Operating Costs have replaced Other Fuel Related Costs in Manual 15. Operating Costs should not be included in the maintenance adder calculation. Market Sellers should include these costs in the separate sheet labeled Operating Costs.

## *MAINTENANCE ADDER TEMPLATE – SECTION 2*

Market Sellers must use either 10 years or 20 years of historical data when calculating a unit's maintenance adder. Any unit with fewer than 10 years of historical maintenance costs is considered an immature unit. Immature Units should select 10 years and input all available operating history data. Immature Units with less than one calendar year of operating history may use the Variable Operations and Maintenance (VOM) value published by Monitoring Analytics in the latest Annual PJM State of the Market Report (SOM) in the Operating Cost template.

**Note:** Units that elect to use the annual SOM value for the Operating Cost Adder may not include a Maintenance Adder or any other operating costs. When using the SOM value, the Operating Cost Adder must be in \$/MWh.

The 10 year or 20 year maintenance history should be reviewed for consistency. Spikes in the maintenance history should reflect major maintenance such as turbine, or boiler overhauls on a 6 to 10 year period for base load plants and 10 years or longer for peaking plants. Market Sellers should be questioned on historical years where the maintenance dollars and operating history seem to be significantly different from other years.

Maintenance adders can be calculated on \$/MWh, \$/mmBTU, \$/hr, \$/ESH, or \$/start basis.

Market Sellers can apportion maintenance dollars between more than one unit of measure. For example, GE's guidance on overhauls for some of their combustion turbines specifies that overhauls should take place whenever the unit reaches either a set number of operating hours or a set number of starts. In some cases, it may be difficult for the Market Seller to determine which unit of measure to use. Market Sellers could split a \$2M maintenance history as \$1M in \$/hour and \$1M in \$/starts.

**Note:** Once a Market Seller submits a set of Maintenance Adders with specific units of measure for review, it must stay with those units until the next annual review period.

### *Maintenance History*

Market Sellers should enter annual maintenance dollars for each year of the selected period under Maintenance History. All expenses included in the maintenance history shall conform to the requirements of Section 1 above. Market Sellers that wish to have multiple maintenance adders (i.e. \$/MWh and \$/start) must submit multiple sheets in the workbook. Maintenance expenses must be split and cannot be duplicated when submitting multiple sheets.

### *Operating History*

Market Sellers should enter the appropriate operating history for each year that maintenance dollars are provided. If the maintenance adder is in \$/MWh, the Operating History must be entered as the annual positive generation (MWh) of the unit. Negative station service MWh when the unit is offline should be excluded<sup>1</sup>. If the maintenance adder is in \$/mmBTU, the Operating History should be entered as the annual fuel consumption (mmBTU) of the unit. If the maintenance adder is in \$/hr, the Operating History should be

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<sup>1</sup> Positive generation of the unit can be found in the historic Power Meter submittals for the unit. MSRS reports can be used to find these values.

entered as the annual operating hours (hrs). If the maintenance adder is in \$/start, the Operating History should be entered as the annual starts (starts) of the unit. If the maintenance adder is in \$/ESH, the Operating History should be entered in equivalent service hours (ESH) of the unit, Market Sellers must also provide the cyclic starting and peaking factors used. Only OEM supplied factors can be used.

#### *Handy Whitman*

Historical maintenance costs are escalated by the Handy Whitman escalation factor to current year dollars (see M15 section 2.6.1). Market Sellers cannot change the Handy Whitman index provided in the template.

#### *Cyclic Peaking and Cyclic Starting Factors*

M15 Sections 5.6.3 and 6.6.3 allow combined cycle and combustion turbine units to use cyclic starting and cyclic peaking factors if they have submitted their maintenance history in units of \$/ESH. Cyclic starting and peaking factors convert starts and peak hours into base load operating hours. For example, if a cyclic starting factor is 10, one start is equivalent to 10 base load hours. Some OEMs use ESH to trigger when a major overhaul should be performed. These are typically found in OEM or LTSA documentation under “equivalent hours”, “equivalent starts”, “factored hours”, or “factored starts”.

**Note:** Only OEM or LTSA-specified cyclic starting and peaking factors can be applied to the Maintenance Adder included in the unit’s cost-based offer. In order to avoid a potential penalty, Market Sellers should submit the cyclic starting and/or peaking factors that they would like to use.

M15 allows Market Sellers to use default factors only if the OEM or LTSA documentation is unavailable during ownership transfer, but this is extremely rare. In most cases, if the cyclic factors are not found in OEM or LTSA documentation it’s because the unit does not have cyclic factors and therefore are equal to one. For example, most aero-derivative combustion turbines like Pratt & Whitney FT-4s do not have cyclic starting factors. These units should not use the default in M15, but use a cyclic starting factor of one.

#### *MAINTENANCE ADDER TEMPLATE – MAINTENANCE ADDER*

Market Sellers can only use the Maintenance Adder listed once it has been reviewed and accepted by PJM. Market Sellers that are using the SOM default for the Operating Cost Adder should not submit a Maintenance Adder template.

## OPERATING COST TEMPLATE

### *OPERATING COST TEMPLATE – UNIT INFORMATION*

Market Sellers shall provide the Market Seller's Company Name, Contact Name, Contact Email, Contact Phone Number and Market Unit ID and Name as requested.

### *OPERATING COST TEMPLATE – SECTION 1*

Operating Costs have replaced Other Fuel Related Costs in Manual 15. Operating Costs may be calculated on a fixed or rolling average of values from one to five years in length, reviewed annually or a rolling average from twelve to sixty months in length, reviewed and updated if changed monthly.

Market Sellers shall provide an itemized breakdown of Operating Costs from the previous year. Operating Costs can include, lubricants, chemicals, limestone, trona, ammonia, acids, caustics, water injection, and demineralizer costs. Costs should be listed by category, maintenance activity, and/or FERC account, and include a short description of the items included.

### *OPERATING COST TEMPLATE – SECTION 2*

Market Sellers may use up to 5 years of historical costs when calculating a unit's Operating Costs. Operating Costs can only be calculated on \$/MWh or \$/mmBTU basis.

Market Sellers should enter annual Operating Costs for each year that has available Operating Cost History. If less than 1 year of data is available and entered, the length of time for which data is available should be entered as a note for Year 2019. All costs included in the history shall conform to the requirements of Section 1 above. When submitting an Operating History of MWh, only positive generation (MWh) of the unit should be included. Negative station service MWh when the unit is offline should be excluded.

### *Immature Units*

Unit owners with less than one calendar year of operating history (either new or transferred units) may choose to use Monitoring Analytics' most recent VOM value for their unit's technology type, published in the Annual PJM State of the Market (SOM) report. Market Sellers should enter the SOM values in Section 1, with the description "SOM Default", and carry the value down to Section 2 of the template (please see slides 46-48 in the Maintenance Adder & Cost Submission Process PDF on the [Fuel Cost Policies page](#)).

### *Handy Whitman*

Operating Costs can be escalated by the Handy Whitman escalation factor when the term of the calculation exceeds twelve months. (See M15 section 2.3.3).

### *OPERATING COST TEMPLATE – OPERATING COST ADDER*

Market Sellers can only use the Operating Costs adder listed once it has been reviewed by PJM. Market Sellers that are using the SOM default should use \$0/MWH as a maintenance adder.

## SPECIAL CASES

The following paragraphs provide guidance for special cases encountered during the maintenance and operating cost adder review process.

### *Equipment Upgrades*

Upgrades or replacement of existing equipment with capital upgrades/enhancements typically cannot be included in the calculation of a unit's maintenance adder. These are typically included in a unit's capacity offer via Avoidable Project Investment Recovery Rate (APIR).

Examples of upgrades that cannot be included are:

- 1) The addition of an SCR;
- 2) Replacement of steam turbine blades with the latest tilted twisted design;
- 3) Addition of emission control equipment; or
- 4) Addition of water sprays on a CT for power augmentation.

**Note:** If the equipment is being upgraded because the original equipment is obsolete and can no longer be procured, this expense is considered a replacement and can be included. The most common example of this is the replacement of the control system or control system components on an old combustion turbine.

### *Preventive Maintenance, Periodic Testing and Inspections*

Preventive Maintenance costs such as oil analysis, vibration surveys, or time based replacements cannot be included in the calculation of the maintenance adder. Periodic testing or inspections if done on a time basis also cannot be included i.e. changed or performed monthly.

### *Title V Emission Costs*

Title V emissions permits may contain a fixed and/or variable cost component. Only the variable portion may be included in the unit's operating cost. This is typically represented as a \$/MW, \$/start, or \$/hour cost.

The completion of this review does not preclude any potential penalty that may be assessed in the event PJM later determines, with input from the Market Monitor, that the Maintenance Adder and Operating Cost includes charges that are not in compliance with Operating Agreement, Schedule 2.



## Revision History

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