

# VOM Issue Charge and Problem Statement

Markets Implementation  
Committee

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# Purpose of Cost Based Offers

- **The sole purpose of cost based offers is market power mitigation.**
- **Market power mitigation is meant to achieve competitive market prices.**
- **A competitive offer is short run marginal cost.**
- **Any cost based offer that exceeds short run marginal cost is ineffective in supporting competitive market prices.**

# Three Types of Costs

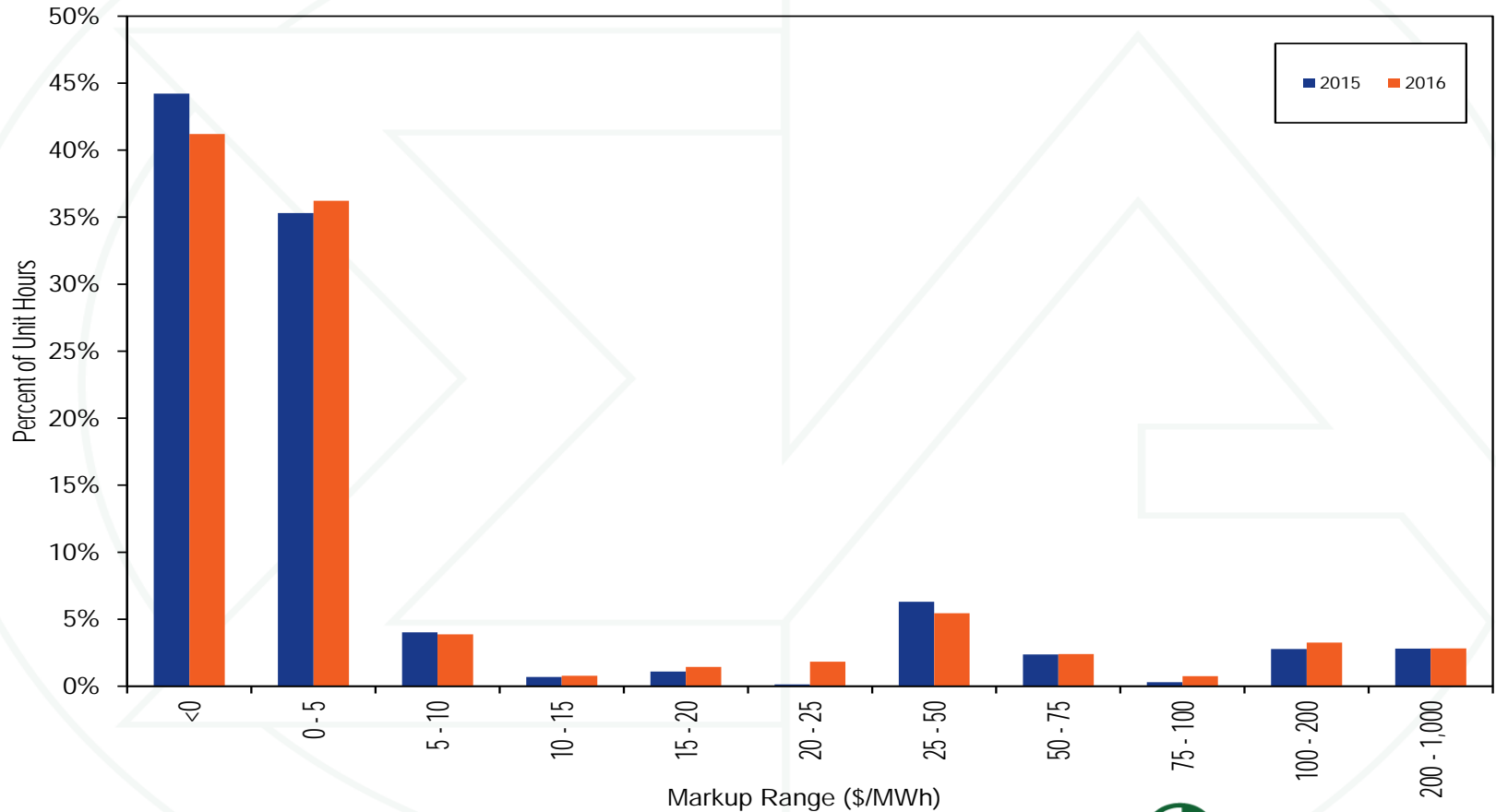
- **Short Run Marginal Costs**
- **Avoidable Costs**
- **Fixed Costs**



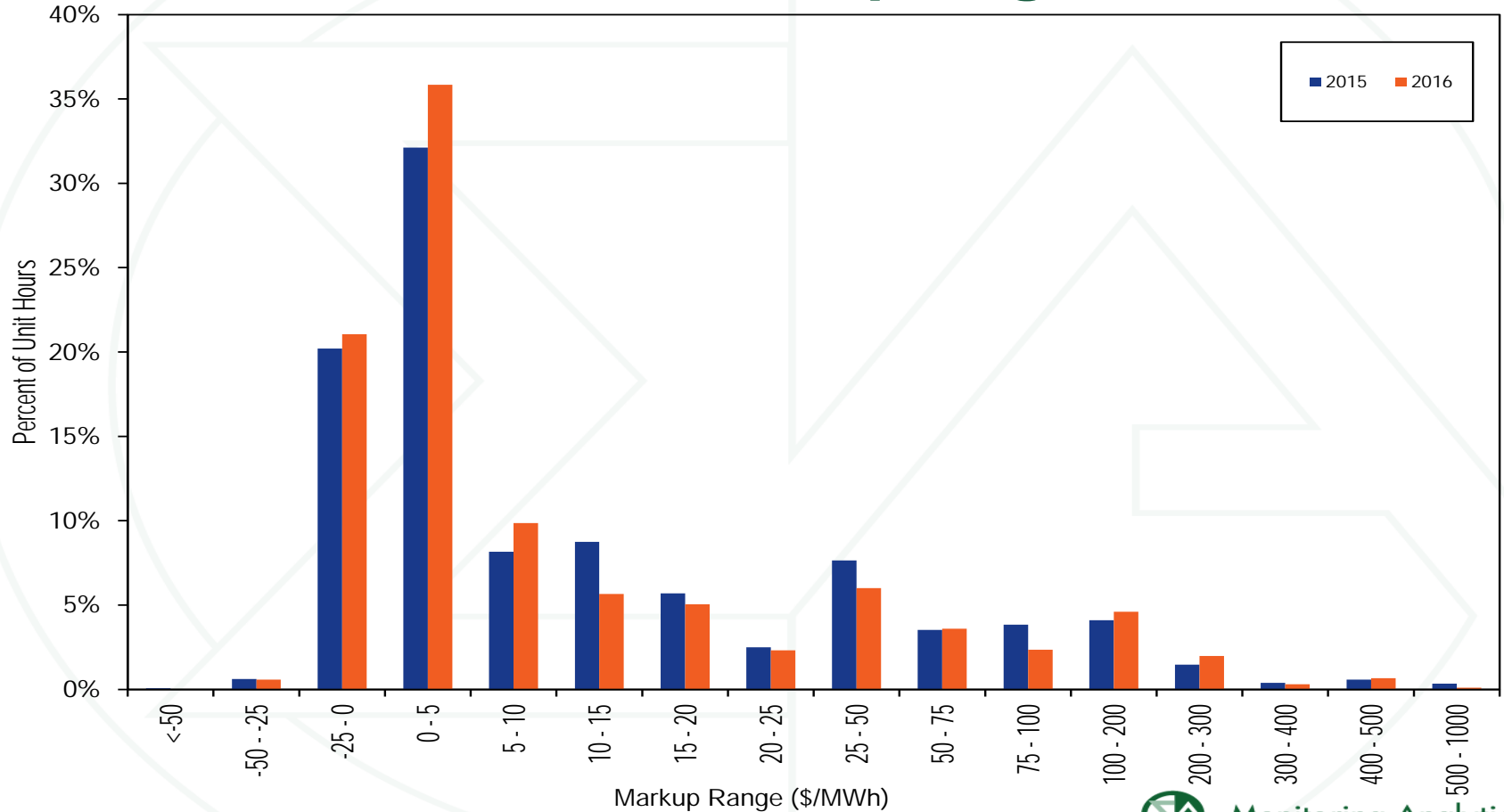
# Issues with Manual 15

- **Not consistent with short run marginal costs**
- **Contains incorrect calculations**
- **Relies on FERC accounting**
- **Missing many necessary details for calculating correct cost based offers**
- **Allows for overstated cost based offers, especially with respect to VOM**

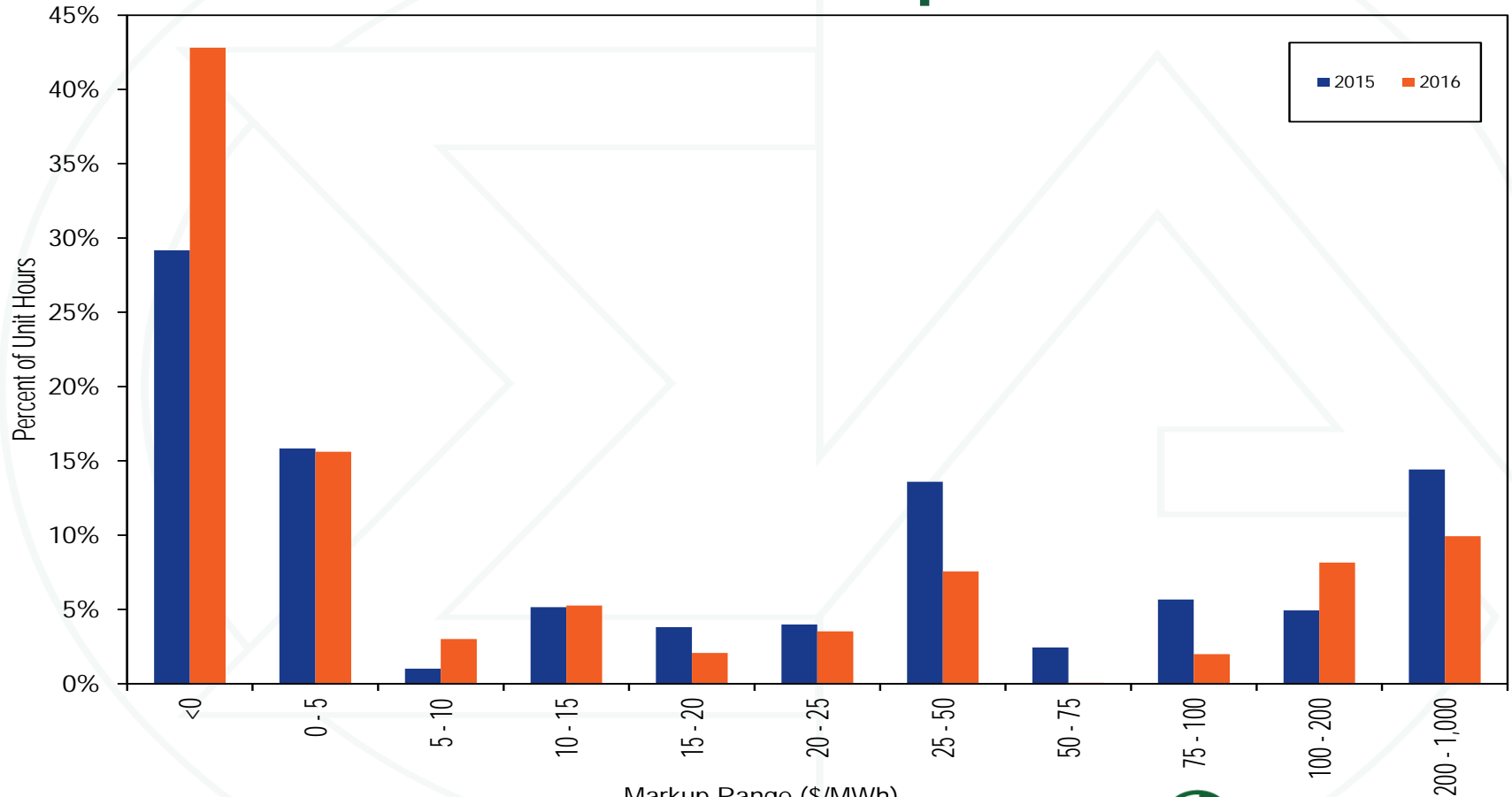
# Distribution of markup of coal units



# Distribution of markup of gas units



# Distribution of markup of oil units



# MMU Recommendations

- **Specify short run marginal costs only**
  - **Manual 15 and Operating Agreement**
- **Removal of use of FERC accounts**
- **Removal of labor costs**
- **Limit CC start heat to first fire of CTs**
- **Removal of nuclear fuel and VOM costs that are fixed in the short run**
- **Correct pumped hydro calculation**
- **Revise opportunity cost calculation**



# Revision of Problem Statement and Issue Charge

- **Broaden the scope beyond VOM and Manual 15 to deal with all issues**
  - **All topics in Manual 15**
  - **Operating Agreement, Schedule 2**
  - **OATT Attachment DD, Avoidable Cost Rate**
- **PJM's statement is incorrect that the treatment of VOM for CCs and CTs differs from other units**

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