

CTs and CCs Overhaul cost recovery Educational Document

References to PJM Documents

[Manual 15: Cost Development Guidelines](#) details the standards for determining cost components for markets where products or services are provided to PJM at cost-based rates, as referenced in Schedule 1, Section 6 of the PJM Operating Agreement. Generation Owners use Manual 15 to develop their cost based offers. Manual 15 provides detail instructions on how to calculate or use FERC accounts to determine VOM costs for various types of units when they are providing energy or ancillary services.

Combined Cycle and Combustion Turbine units can receive Long Term Service Contract Cost Recovery if they have a contract with a third party vendor to provide overhaul and maintenance work that have their long term maintenance costs included if they are consistent with Manual 15 and the dollar value of each component set in the contract.¹ Furthermore, Combustion Turbine and Combined Cycle Plant major inspection and overhaul expenses may be included in variable maintenance expenses if these costs are due to incremental degradation directly related to generation, starts or a combination of both. Also, long term maintenance expenses cannot be counted if they are included elsewhere in VOM.²

VOM & ACR: effects in RPM

Avoidable expenses are incremental expenses directly required to operate a Generation Capacity Resource that a Generation Owner would not incur if such generating unit did not operate in the Delivery Year or meet Availability criteria during Peak-Hour Periods during the Delivery Year. For the purpose of determining an Avoidable Cost Rate, avoidable expenses shall exclude variable costs recoverable under cost-based offers to sell energy from operating capacity on the PJM Interchange Energy Market under the Operating Agreement.³

VOM and FERC Code of Accounts

The *FERC System of Accounts* was created when a predominant amount of the nation's electrical generating resources were part of a vertically integrated regulated utility. Although many of those resources are now owned by merchant generators or Independent Power Producers the descriptions of the accounts are still useful in understanding the initial concepts that were being enacted at the time. These accounts include the cost of labor, materials used, and expenses incurred in the maintenance of steam plant, electric plant, reactor plant, reservoirs, dams and waterways. Essentially, FERC account 512, 513, 553, 530, 545 and 531 do not shed light on the components of maintenance, they simply state "This account shall include the cost of labor, materials used and expenses incurred in the maintenance...".

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FERC Cost Of Service Manual

Fixed costs are costs that do not vary with the level of output of a generation unit. “Fixed costs are costs which remain constant regardless of the volume of throughput...”⁴

Variable costs are those which are correlated with the level of output. “Variable costs are costs which vary with the volume of throughput.”⁵

¹ Manual 15

² Manual 15

³ OATT P1571

⁴ <http://www.ferc.gov/industries/gas/gen-info/cost-of-service-manual.doc>

⁵ <http://www.ferc.gov/industries/gas/gen-info/cost-of-service-manual.doc>