

# **Minimum Oil Burn Compensation Proposal**

**Business Issues Committee**

**March 7, 2007**

# Agenda

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- ◆ Background
- ◆ Proposal
- ◆ Implementation Plans

# Background

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- ◆ NYSRC Local Reliability Rule I-R3 states:
  - “the NYS Bulk Power System shall be operated so that the loss of a single gas facility does not result in the loss of electric load within the New York City or Long Island zones.”
  - The application of this rule requires select units under defined load conditions to operate the generation with the alternative fuels or combination of fuels.
- ◆ February 2006, NYS PSC adopted into Law the Reliability Council reliability rules

# Background

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- ◆ Minimum oil burn obligation not simultaneously and commonly applied to all units in the electric region
  - *Units are being directed to operate under conditions market forces would not naturally produce*
- ◆ Market Participants have identified a concern with providing a reliability service at:
  - *increased cost,*
  - *potential increased exposure to mitigation,*
  - *the economic disadvantage such a rule impose when compared to surrounding units not exposed to the same obligations.*

# Proposal

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- ◆ Minimum Oil Burn Activation
- ◆ Fixed Maintenance Cost Recovery
- ◆ Margin Restoration Payment

# Minimum Oil Burn Activation

- ◆ Facilitate transparent and timely activation of minimum oil burn obligations
  - *Provide notification of minimum oil burn obligations based upon agreed to thresholds of Zone J forecasts*
  - *Minimum oil burn obligations will be validated and invoked in-day*

- ◆ Thresholds

- *Zone J forecast equivalents to ConEd territory level*

<u>ConEd</u>	<u>Zone J</u>
7500	6500
9000	7800

# Fixed Maintenance Cost Recovery

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- ◆ Defer discussion on fixed maintenance cost recovery to focus efforts on the Margin Restoration Payment to complete its implementation and establish an accurate cost accounting of recovered expenses.
  - Payment was intended to refund for the maintenance costs incurred in providing the capability to be operated under alternative fuels or dynamic switching to alternate fuels.
  - *Concerns had been raised regarding what costs were appropriate to be recovered, quantifying the opportunities afforded by the oil burning capability and the viability of accurately determining payments.*

# Margin Restoration Payment

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- ◆ Provide payment to unit(s) to compensate for increased costs associated with operating on a more expensive fuel.
  - *Payable only during periods of time when the unit is obligated to operate under minimum-oil burn conditions and oil is more expensive than gas.*
  - *Payment would be based upon actual incremental operating costs to comply with minimum oil burn obligation, to the extent they exceed economic fuel choice costs.*
  - *Costs will be recovered from the local load.*



# Margin Restoration Payment

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- ◆ Preferred solution technique would utilize a optimizable constraint to produce needed resource levels and corresponding prices
  - *A defined constraint would contain the price impact to those facilities capable of resolving the constraint (i.e. the minimum oil burn units).*
  - *No readily available constraint exists to mimic the loss of gas contingency and the subsequent network response, nor the tiered unit operation requirements currently in place.*
  - *The MRP provides an alternative compensation mechanism to higher market revenues.*

# Margin Restoration Payment

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- ◆ In order to mimic the impact of a minimum oil burn “constraint”, payment will only be made to units operating under the minimum oil burn obligation, when:
  - *Unit has established reference prices based upon most economic fuel.*
    - Unit is eligible to establish reference prices for other fuel blends per existing protocols, but will not be eligible for the MRP if they do so.
  - *Minimum oil burn conditions have been activated;*
  - *Unit has implemented oil burn operation*

# Implementation Plans

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- ◆ Margin Restoration Payment will capture the following categories:
  - *Fuel cost as determined by daily indexed fuel cost;*
  - *Emission costs as determined by indexed values;*
  - *Tax expenses per tax rates or accrued expense;*
  - *Fuel delivery/handling costs as accrued expense.*
  
  - *Guideline: Appropriate costs to recover are those that would normally be represented in a reference bid for that fuel type.*

# Implementation Plans

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- ◆ Payment of the MRP will require invoice level manual adjustments.
- ◆ To achieve earliest implementation, simplifying assumptions and rules must be adopted.

These simplifications include:

- *MRP payment calculation must be performed on a daily level.*
- *Allocation of charges to load must be performed on a monthly level, at a specific invoice.*
- *Specific guidelines for identifying oil consumption rates and activation and compliance with minimum oil burn obligation.*

# Questions

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