

Minimum Oil Burn Compensation Proposal Status Update

Business Issues Committee

February 7, 2007

Agenda

- ◆ Background
- ◆ Proposed Solution
- ◆ Status of Proposal

Background

- ◆ 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
- ◆ Minimum oil burn obligation not simultaneously and commonly applied to all units in the electric region

Background

- ◆ 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.*

Proposed Solution

- ◆ Coordination of Reference Prices and Minimum Oil Burn Obligations
- ◆ Fixed Maintenance Cost Recovery
- ◆ Margin Restoration Payment

Minimum Oil Burn Activation

- ◆ Facilitate transparent and timely activation of minimum-oil burn obligations and reference price adjustments
 - *Provide a Day-2 and Day-1 notification of minimum-oil burn obligations based upon agreed to thresholds of Zone J forecasts to support management of reference prices*
 - *Increases in bid prices on capacity sold in the Day-Ahead Market is not permitted.*
 - *Minimum-oil burn obligations will be validated and invoked in-day.*
 - *NYISO cannot support adjustments to reference prices in-day for minimum oil burn obligations occurring no earlier than in-day.*

Fixed Maintenance Cost Recovery

- ◆ Provide payments to compensate units for the maintenance costs associated with providing the capability to be operated under alternative fuels or dynamic switching to alternate fuels.
 - *Limited to costs not already compensated for*
 - *Payment to be determined on a unit-by-unit basis as an annualized cost, paid in monthly installments.*
 - *Costs will be recovered from the local load.*

Margin Restoration Payment

- ◆ 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 obligation, to the extent they exceed economic fuel choice costs.*
 - *Costs will be recovered from the local load.*

DRAFT - For Discussion Only

Status of Proposal

- ◆ Minimum Oil Burn Zone J thresholds determined
- ◆ Reviewing Operating Procedures to incorporate additional steps to capture advanced timeline
- ◆ Collecting and reviewing cost components and opportunities afforded to be captured in the fixed maintenance cost compensation
- ◆ Investigating conditions for determining margin restoration payments